

# ***cycles***



***September 1961***

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# A DIRECTOR'S LETTER

## on the current danger:

Our many, many mistakes in Berlin are compounded at the same time as the combined cycles in the war index are at a new high level.

### Dear Member:

I find myself greatly concerned about the international situation, and especially about Berlin.

As I have told you from time to time, study of figures from 500 B.C. to date shows that there are several important cycles in the number of international battles. That is, there are reasonably regular—and hence reasonably predictable—ups and downs in the probability of war. I have found, combined, and projected several of these cycles.

The period from 1960 to 1965 turns out to be especially dangerous. Normal timing for the cycles indicates that we are now in a period where people are unusually bellicose, or irritable, or greedy, or intractable, or whatever it is that leads them to try to settle their differences by arms. Events that would not lead to war in the period 1950 to 1960 might lead to war in the period 1960 to 1965. See the chart on the next page.

What I am trying to say is this: In the period 1950—1960, in an argument between Russia and ourselves, one or the other of us would be likely to back down before actual war. This is indeed what has happened. But in the period 1960—1965, if the cycles tell us anything, there is a greater chance that each will be firm, and that the result will be a war that neither side wants. Surely no one wants a major war over Berlin, *per se*; but both sides may, if they are not careful, get into a position from which they can not retreat.

In view of the very dangerous situation, cyclewise, in which we are at the moment, it may not be out of order to review the whole Berlin situation. How did we get into this mess? How can we get out of it?

We are in the mess because our foreign policy has been characterized by a succession of errors, as follows:

### Mistake Number One

Our first mistake is that, in international affairs, we do not think far enough into the future. In foreign affairs, as in checkers or in chess, we need to look two or three moves ahead.

This fact was brought home to me forcibly a year ago when I was abroad. On the trip I asked a charming Swiss girl if, as seen from the vantage point of a foreign country, she could epitomize the U.S.A. in a dozen words or so.

She thought a moment. Then she said, "You people live in the Present."

"Can you epitomize England?"

"England lives in the Past."

"France? Italy?"

"Like you, they live in the Present."

"Germany?"

"Germany lives in the Future."

"Switzerland?"

"In the Future also."

"Russia?"

This stumped her. Finally she said, "On the Moon," and we all laughed.

This cryptic statement was doubtless sort of a Sputnik inspired wisecrack, but for me at least it had overtones of meaning. Perhaps Russia does live in a hard to attain Never-Never land of her own creating, as well as realistically in the world here below.

Since returning home I have been impressed time and time again by the Swiss girl's remarks. For instance, I read in today's paper that Congress won't go along with President

Kennedy's five-year foreign aid program, but might agree to a three-year one!

### Mistake Number Two

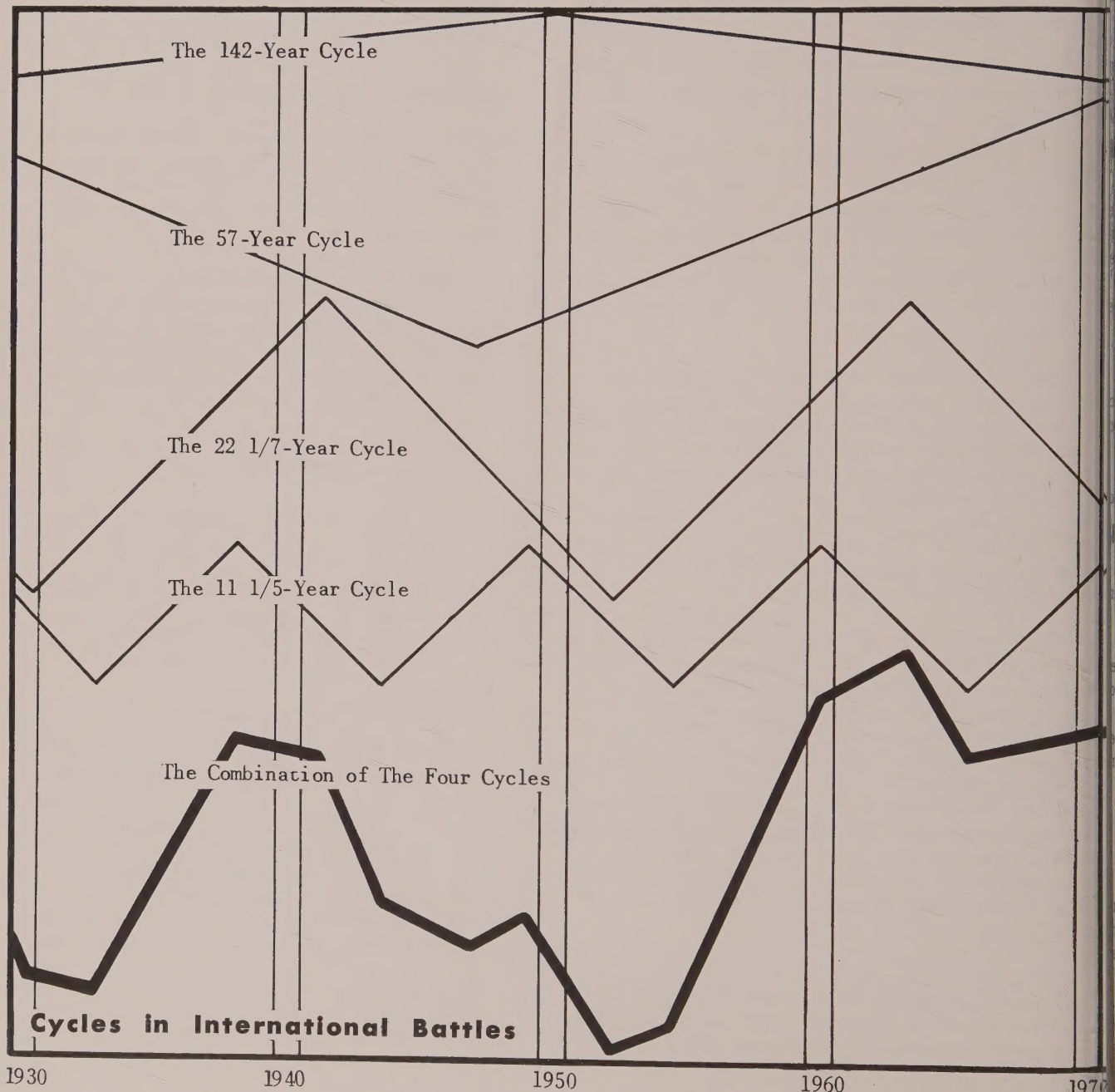
Our second mistake has been our failure to realize the need of bulwarks.

Militarily the Northern Hemisphere is like the top half of an orange. In broad outline it is divided into segments as follows: U.S.A. (and Canada); England and France; Germany and Italy; the buffer states; Russia; China; Japan; and finally ourselves again. Each segment needs the one next to it as a friend and as a bulwark against the one beyond.

For example, we need Japan as a bulwark against China and Russia. Not seeing this, a despoiled Japan of Korea and Formosa, wrote into her post-war constitution a clause forbidding her to have a military establishment! We did indeed make a friend of her, but what is the good of a friend who cannot fight?

Another example: We need China as a bulwark against Russia. And, of course we need Germany as a bulwark against Russia.

A corollary of the bulwark idea is that each segment of the orange should be flanked by two strong powers that can hold it in line.



instance, Germany should be boxed in by a strong England and France on the one side, a strong Russia on the other. Russia should be boxed in by a strong Germany and a strong China.

A second corollary of the bulwark idea is that every segment needs to be on friendly terms with the segment *second* away, so that it can be called upon to stick a knife in the back of the segment next, in the event of war with the adjacent segment.

We must realize that we are in a dog-eat-dog world in which war is the natural state. The idea of a "war to end war" was hopelessly naive.

In a world of long range bombers, atom bombs, and inter-continental missiles, this bulwark idea isn't as important as it once was, but it still has merit.

### **Mistake Number Three**

As a result of mistake two (not realizing the need of bulwarks) we tried to *crush* Germany (also Japan) instead of trying merely to check her. "Unconditional Surrender" was folly of the first magnitude. Our slogan should have been "Peace with Honor."

Our attitude was, "If we are going to have to fight Germany every generation or so, let's kick the tar out of her and have it done with peace and for all." This attitude forgot that we needed Germany to help box in Russia (or as well against England and/or France if this could ever become necessary).

### **Mistake Number Four**

Our fourth mistake was not to think of the German land and the German people as spoils of war, to be divided with Russia. As a result, we let Russia get away with much more than we needed to. In fact, if we had heeded Churchill and attacked through the "soft underbelly," we could doubtless have had it all. Even proceeding as we did, we could have had a much larger share.

It was important that, as against Russia, we get all we could. Our objectives in respect to the conquered country were exactly opposite those of Russia. Russia wished to weaken Germany. It was to our interest to strengthen it. After the partition, each of us did just what to our respective shares.

As everyone knows, we agreed to take, as our share of the booty, West Germany and West Berlin. We gave possession of East Germany and East Berlin to Russia.

Russia proceeded to despoil her half, convert it to communism, and make a satellite state out of it. This is exactly what she should have done, from her standpoint.

We on our part proceeded to give our spoils back to West Germany and the West Berliners, and to give them money to boot. This is exactly what we should have done, from our standpoint. (For once we did the right thing.)

Do not let this action obscure the fact that we did what we did because we wanted to. At the time we were under *no* obligation to Germany or to the people of West Berlin. That, foolishly, came later.

### **Mistake Number Five**

Our fifth mistake is that even yet we do not seem to realize that in 1945 we *gave* East Germany to the Russians. We seem not to understand that *Germany was definitely, finally, and irretrievably partitioned in 1945*, and that she will never be reunited short of another war. We should recognize this fact.

Why do we always give candy to the baby, then want it back? Examples: East Germany, Cuba, North Korea.

Naturally, for purposes of prestige, we wanted the symbolic prize—Berlin. Berlin corresponded to the most beautiful woman in the enemy camp, or, to change the metaphor, the water hole, the head of the deer. We wanted to have our picture taken, gun in hand, our foot on the head of the fallen foe.

As a result of mistake number four (failure to realize that to the victors belong the spoils, and our consequent failure to get the spoils—Germany—for ourselves by adopting Churchill's advice, or otherwise), we lost what would have been our sole rights to the woman, the spring, the trophy. We had to share with Russia. Russia's foot was also on the head when the picture was taken.

### **Mistake Number Six**

As we wanted Berlin, our sixth mistake was not to insist that the division line between East and West Germany run through Berlin itself.

To permit part of our spoils to remain in the other fellow's possession is like letting him take the woman to his house, or have the water hole in his pasture. Even a passageway to West Berlin would not have been enough. (Remember the Polish Corridor.)

*We lost the battle of Berlin on the day we*

*acquiesced in a division line west of the city. It is here that we should, if necessary, have gone to war.*

### **Mistake Number Seven**

Having made mistake number six, our seventh mistake was in not *immediately* disentangling ourselves from West Berlin, as adroitly as possible.

### **Mistake Number Eight**

Having failed to get out of West Berlin as soon as possible after having had the picture taken, we then made our eighth mistake. As a practical matter, we gave up our right of access!

I do not remember if the agreement relative to Berlin expressly provided right to access, but no matter. It was implicit in the agreement. Rights to the woman, the spring, the city, automatically include right of access in a realistic world.

When these rights were challenged we should have said (if we were so foolish as to wish to try to hold the unholdable), "West Berlin is ours by right of conquest and division of the spoils. Our rights include the right of access. If you try to stop us, we will go in with tanks." Here again we were spineless.

Instead we resorted to the air lift.

It is as if we gave up access to the woman except through the second story window, or to the spring except through a hose let down from an overhanging tree. (Let us not forget, windows can be barred, branches cut off.)

*Thus we lost the battle of Berlin a second time. We have been there only on sufferance ever since. The sufferance is running out!*

### **Mistake Number Nine**

The ninth mistake was the air lift itself.

If, when we were denied land access, we had folded our hands and said meekly, "Well, if we can't get in, we can't get in," it would have been a bit humiliating (but our just deserts for not having found a graceful face-saving way out previously). But the world would have understood. The world would have realized it was the inevitable consequence of our failure to draw the division line properly, and merely another example of our ineptness and naivete in foreign affairs. The world would have said, "Russia outsmarted them again," and would soon have forgotten the incident. But no, we had to make an issue out of it. We put ourselves on a pedestal where all

the world could see. Like a cat howling at the top of a telegraph pole. The climb down will be hard.

### **Mistake Number Ten**

As if this were not bad enough, we had to make a tenth mistake. We *voluntarily* assumed an obligation to the people of West Berlin "never to let them down."

To start with we had *no* obligation relative to Berlin. Staying in was merely a matter of saving face. Now, to defend the city is a matter of *honor*.

### **Mistake Number Eleven**

To see mistake number eleven let us look at the situation from the Russian point of view.

Our occupation of West Berlin is a thorn in Russian flesh; (a) It is a point far within Russian territory (disregarding legal quibbles about East Germany not being Russian). (b) It offers haven for escapees. (c) It provides a base for U.S.A. espionage. (d) It provides a base for U.S.A. radio propaganda. (e) It provides an object lesson of the superior comforts of the western system. It is as if Chicago or St. Louis were half communist and as if the communist half were five times as attractive as the U.S.A. half. No wonder Russia does not like it.

As, from the Russian point of view, *any* foothold that we might have in Berlin would be obnoxious, why have we done everything in our power to make it *more* obnoxious? Why, for instance, have we accepted escapees? And used it for broadcasts? And used it as a base for spying? This was our eleventh mistake.

### **Mistake Number Twelve**

Our twelfth mistake is the idea that we could encourage dissident elements in Russia to overthrow the government, and/or that we could encourage the slave states to revolt.

Obviously such an objective never had the slightest chance of success, but insofar as it fomented discord, it must have been extremely irritating to Russia.

Our attitude toward West Berlin is part of this whole fallacious concept. We tend to think of West Berlin as a *moral* beachhead in this fight to undermine Russian sovereignty over its slave states and its people. If we would give up what seems to me to be mere meddling (one of our national characteristics), our interest in West Berlin would sink to its proper proportions.

## Mistake Number Thirteen

Our thirteenth mistake is our failure to realize that, although Russia may back down temporarily, she will *never* really give in on West Berlin (except as a result of defeat in an all-out war).

Russia will never back down permanently because she has the primitive peasant fundamental of possession on her side. (We have the legal right, according to our system of law, but these don't count against the realities of nature.)

A bird stakes off a certain area as his; other birds encroach at their peril. A dog knows the boundaries of his master's property and knows that they are his, too. Other dogs respect his rights, and permit him to drive them off. If it comes to a fight, even a little dog, on his own property, will defeat a bigger dog. Imagine trying to explain to bird or dog number one that there is one little spot on his property to which bird or dog number two, as a result of something signed in a lawyer's office, has rights! Imagine trying to explain it to Russia!

Russia will not back down (except temporarily) for the same reason that we would not back down if Russia occupied Los Angeles, St. Louis, Chicago, Philadelphia, or New York.

## Mistake Number Fourteen

Our fourteenth mistake is our current reiteration that although we wish to work out a solution of the Berlin Crisis, we are going to "stand firm."

This statement is of course the same as Mr. Krushchev's. It reminds me of a story.

A friend of mine was in a taxicab in New York City going south at high speed. Coming to an intersection not protected by stop signs or stop lights he saw another taxicab coming at high speed from the right. Neither cab slowed up. At the last possible minute before hitting, the other cab driver slammed on his brakes and a horrible crash was avoided.

"I knew that that fellow would chicken!" said my friend's driver. Ever since, my friend has been wondering what would have happened if the other fellow hadn't!

I am wondering the same thing about Berlin, if we both "stand firm."

To use another analogy. You and I have a squabble over the location of a fence post.

It is important to each of us as a matter of prestige. We are both armed. We argue. We swear at each other. Then I take a pot shot in your direction, just for fun, of course, and to show that I mean business. You return the fire, again just for fun, and to show you can not be fluffed. I shoot again, and the bullet comes closer than I meant. It goes through your hat. You say, "My God! The fellow is trying to kill me. I'd better kill him first." So you aim for my heart. Before I die, I kill you too. All for a fence post! (Or Berlin!)

It is like this: We know the Russians would not be so foolish as to fight a major war for Berlin, so we "know" they are bluffing. On their part they know we would not be so foolish as to fight a major war for Berlin, so they "know" we are bluffing. (This time we may both be wrong—therein the danger.) It is the taxicabs again.

## Mistake Number Fifteen

Our fifteenth mistake is our self imposed restriction of discussion. We are so afraid of appearing divided that many who do not really approve of our policies are afraid to voice opposition. The result is that our policy makers are reinforced in their ideas. "Everybody agrees that our course is correct," they say. "We are doing merely what everybody wants." (The cynic might say that this should warn them that the course is probably wrong!)

What then to do? I hear you ask me, "What would you do?" I am reminded of the patient and the psychiatrist.

"What would you do, doctor, if you were in my fix?"

"My dear Sir," said the doctor, "If I were you, I wouldn't be in your fix to start with!"

But that isn't very helpful, is it? So I'll answer as best I can. But there are several things I want to say first:

Our present policy relative to Berlin is in part the natural outgrowth of our basic policies. It is these that need to be reviewed and changed. I am well aware that Russia is an expert at the old baloney game. Each slice cut off is so small that it isn't worth fighting for. Finally nothing is left but the string, and it isn't worth fighting for either! My feeling that Berlin isn't worth fighting for is not that the slice is too thin—it is that our claims there are merely legalistic, and not basically sound. I would be firm as a rock on something where I felt I had basic rights on our side, such as, in 1945, a German divi-

sion line through Berlin.

A realistic policy toward Berlin is in no sense to be thought of as appeasement. Appeasement never works. Of course Russia might think of it as appeasement, but this fact would not deter me from doing what I thought right, from the long range point of view.

Well, then, to come to the answers:

1. I would recognize that, *de facto*, we gave East Germany to Russia in 1945; I would stop trying to get it back.

2. I would immediately cease all efforts to subvert the Russian people and the people in the satellite countries.

3. I would immediately act to minimize the irritations arising from our occupation of West Berlin. I would exclude refugees, stop using it as a spy center, stop propaganda radio and television, stop using it as a center of intrigue, stop flaunting it. I would stop doing in Berlin all the things that we would object to the Russians doing in St. Louis, Chicago, or New York, if they occupied one of those cities.

4. As soon as possible I would abandon West Berlin as a beachhead, saving what face I could. Perhaps this could be done by making East and West Berlin a "free" city as suggested by Mr. K. Or by an adjudication of all disputes by the World Court. Or in some other way that would cover up for a full scale retreat.

5. I would recognize my ill-advised promise to the people of West Berlin not to "let them down" by doing everything in my power for them. This might take the form of resettlement of those who did not care to remain in the "free" city, or might take some other form. I would not consider that, in our best interest, *or theirs*, I was committed to go to war for them.

What is the alternative to this program? Stand so firm that the Russians back down? Then what? Wait until the Russians make another bid for Berlin? Then stand firm again? And so on forever?

But suppose the Russians—on this or some

other occasion—do not back down? What then are the alternatives? We must back down with either greater loss of face, or engage in war. As backing down with partial face saving is better than backing down with no face saving, it is obvious that eventually, unless the Russians back down permanently, the choice is to get out with what face we can, or fight.

Suppose neither we nor the Russians "chicken out," to use the language of the cab driver. Suppose we go to war. Suppose a nice friendly little war with a few airplanes and a few tanks and a few thousand people killed. No A-boms, no H-bombs, no N-bombs. Then what?

Suppose the Russians win? We are thrown out.

Suppose we win? We are right back where we started! (Korea.)

But will we (or the Russians) accept defeat when we could win by the use of A-, H-, or N-bombs? And will we (or the Russians) allow the other side to use A-, H-, or N-bombs without retaliating? Or, if we are about to be whipped by the East Germans because of the reinforcements they are getting from Russia, will we restrain ourselves from bombing the Russian bases? And if we don't, will they not retaliate? (Or vice versa?) I do not like the looks of the picture "a-tall."

The jingoes will not like my solution. They will say that the Russians take every compromise as evidence of weakness; that if we give in here the Russians will be harder to deal with on the next issue; that the Russians understand only firmness and arrogance and strength. All these things are doubtless so, but my solution would remain unchanged.

Let us not risk an all-out war for an untenable beachhead that we have no intention of consolidating. Let us wait and go to war, if we have to, for something vital, where we have practical right on our side. And let us not figure that the other fellow is bluffing when we are in this part of the cycle.

Cordially yours,

Edward R. Dewey  
Director

P.S. As we go to press, it looks as if we were *not* bluffing about Berlin. The great danger is that the Russians think we are bluffing when we are not, and act accordingly.

E.R.D.

# THE GEISINGER INDICATOR

The Geisinger Indicator goes up to 2.60—

Based on the information available today, the Geisinger Indicator went up to plus 2.60 in March (November when advanced). This is the first time the Geisinger Indicator has cut plus 2.00 going up since May 1958. Similar signals in the past have always been followed by marked increases in production—the May 1958 signal was followed by the 1959—60 high.

Of course, anything can happen, and what has always worked in the past will not necessarily always work in the future. Going by the record, however, it would appear that the outlook for production is good.

Production, measured by the Federal Reserve Board's Index, rose again in June. We have been using the 1947—49 = 100 Index, but this month we are switching to the 1957 = 100 Index. The index on both bases is prepared and reported monthly by the Federal Reserve Board. We are making the change because the 1957

Index has the more recent base. It is also easier to understand because it is based on a single year. The recent record is given below in the first column, and the June value is 110. That is, production in June 1961 was 10% above the 1957 level.

The change in the F.R.B. Index also makes slight changes in the First Difference Indicator, and the Modified Geisinger Indicator. The figures based on the 1957 index are given below. On either basis, however, both the First Difference Indicator and the Modified Geisinger Indicator were up from the previous month.

The really important fact to report is that the Geisinger Indicator went up to plus 2.60, and this is good news indeed.

July 26, 1961

E. R. Dewey

## The recent figures:

| Month    | F.R.B.<br>Index # | Geisinger<br>Indicator | First<br>Difference<br>Indicator | Modified<br>Geisinger<br>Indicator | Timing<br>Advanced<br>8 Months |
|----------|-------------------|------------------------|----------------------------------|------------------------------------|--------------------------------|
| Oct-1960 | 106.3             | -2.40                  | -1.16                            | -3.56                              | 1961-Jun                       |
| Nov      | 104.6             | -2.60                  | -1.27                            | -3.87                              | Jul                            |
| Dec      | 103.0             | -3.20                  | -1.30                            | -4.50                              | Aug                            |
| Jan-1961 | 102.3             | -2.20                  | -1.08                            | -3.28                              | Sep                            |
| Feb      | 102.1             | 0.40                   | -0.49                            | -0.09                              | Oct                            |
| Mar      | 102.6             | 2.60                   | 0.45                             | 3.05                               | Nov                            |
| Apr      | 105.4             | *                      | 1.55                             | *                                  | Dec                            |
| May      | 108.3             | *                      | 2.27p                            | *                                  | 1962-Jan                       |
| Jun      | 110.0p            | *                      | *                                | *                                  | Feb                            |

# - 1957 = 100; adjusted for seasonal variation

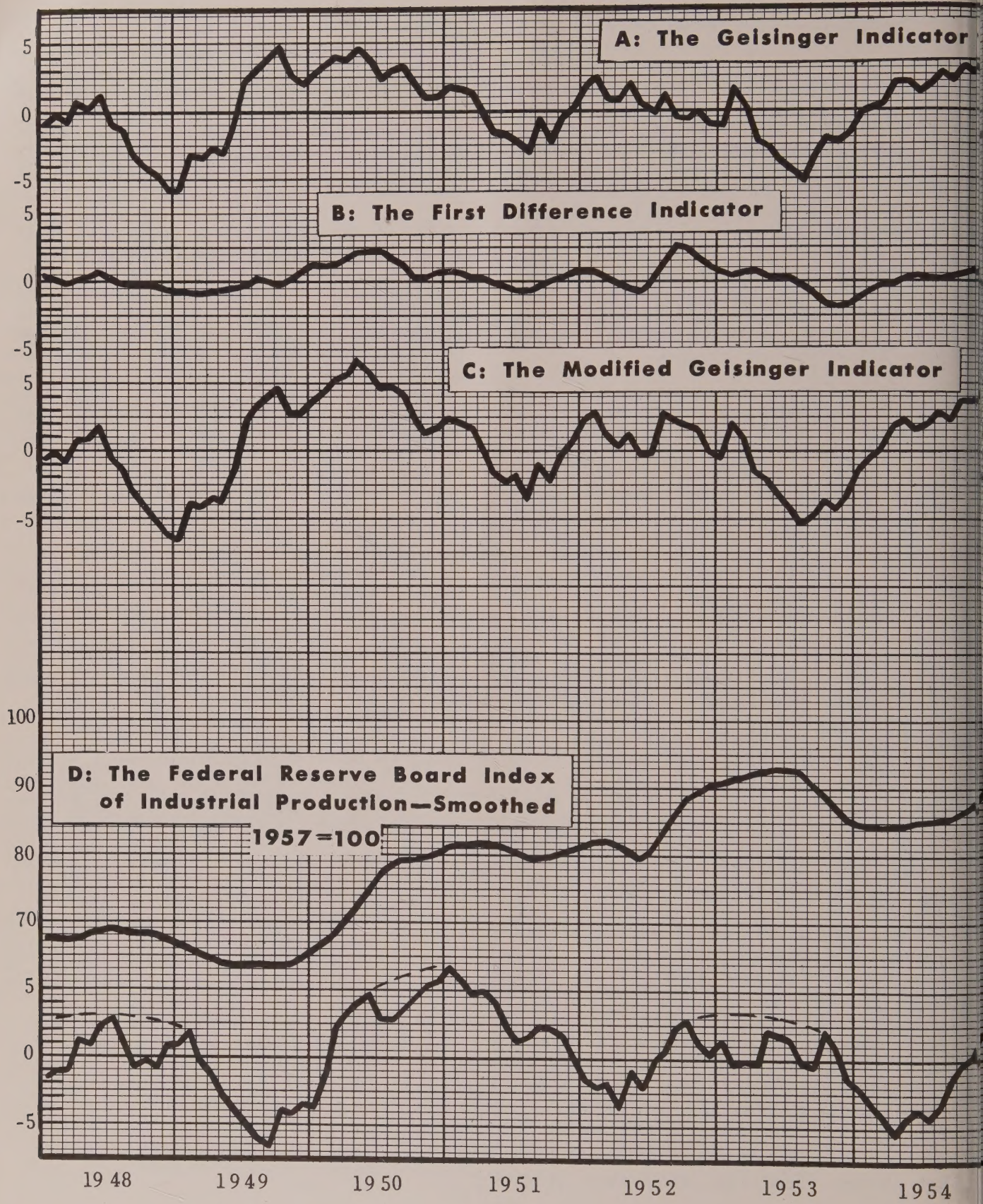
p - preliminary

\* - not yet available

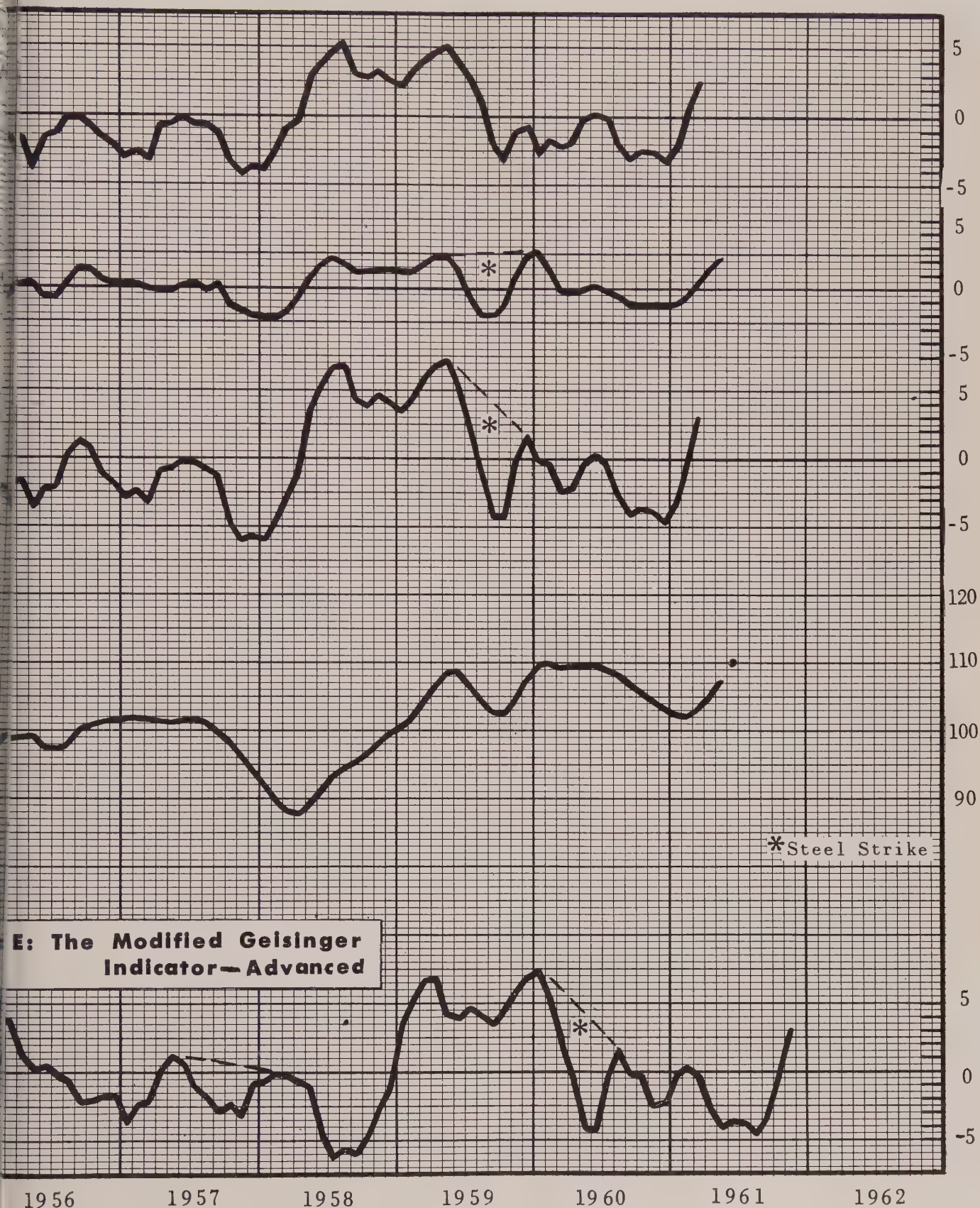
*For \$3 a year extra members can get the Geisinger Indicator text and figures by first-class mail immediately after it is written. This service saves you the two weeks that it takes to print and mail Cycles, plus the two weeks it takes the Post Office to deliver it.*

The chart: See the next two pages

# The Geisinger Indicator Compared To Industrial



# roduction:



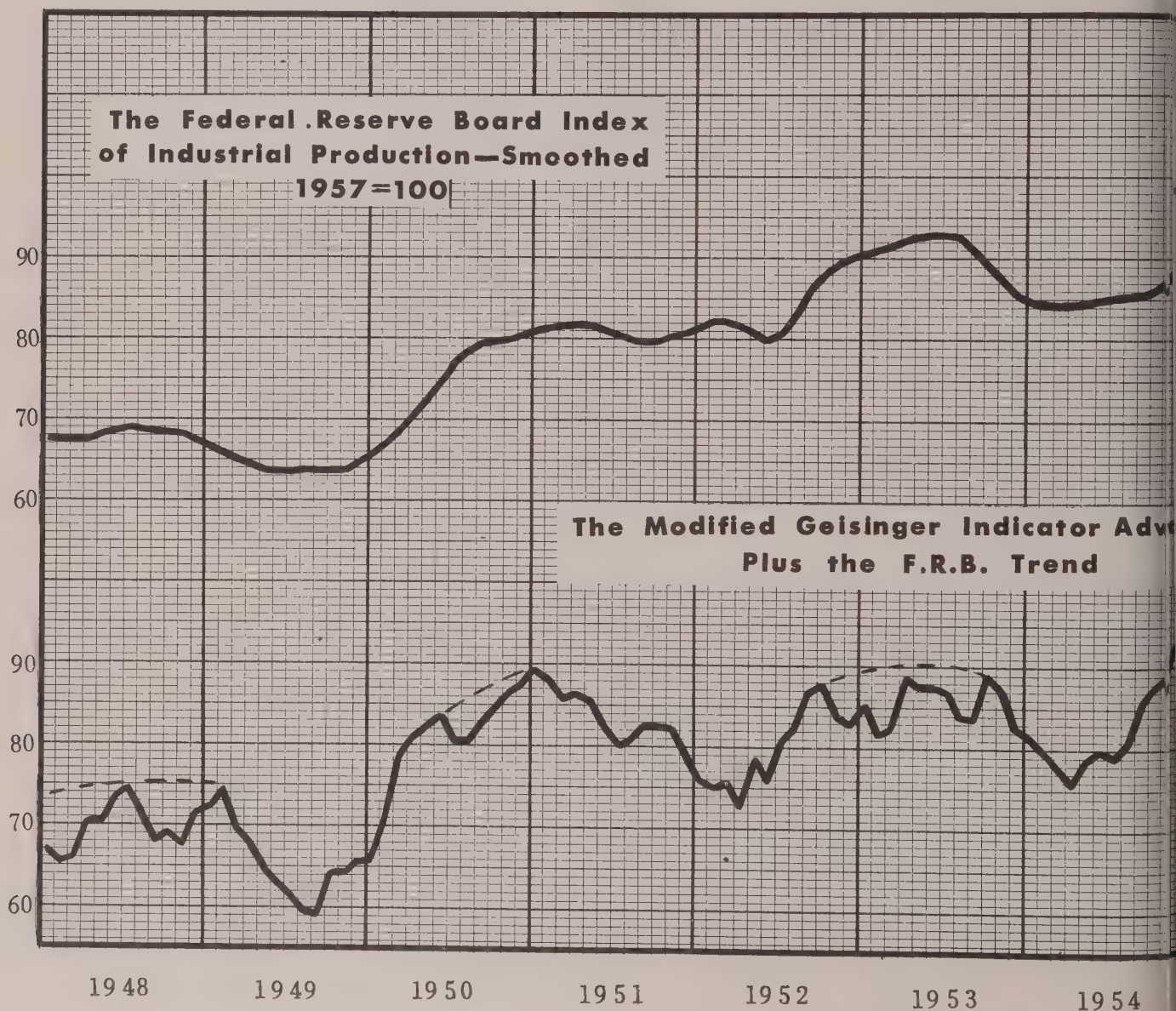
# THE MODIFIED INDICATOR VS THE F.R.B. INDEX

There has been a general correspondence between the Modified Geisinger Indicator (when advanced) and the F.R.B. Index of Production. But, the signals given by the Geisinger Indicator alone have been a more reliable guide to what is ahead.

Therefore, the monthly Geisinger reports emphasize the plus 2 good times and minus 2 poor times signals. But the other (not so reliable or dramatic) way of looking at the Indicators versus production is shown on the chart below.

Here the *trend* of production has been added to the Modified Geisinger Indicator. This adjustment does not change the ups and downs

of the Modified Geisinger Indicator, it only tilts the line uphill. Both curves, the Modified Indicator curve and the Index of Production curve, slope upward on the chart to the same degree. The production line on the chart below is the smoothed F.R.B. Index of Industrial Production, 1957=100, after adjustment for seasonal variation. It shows the level of physical production in the U.S.A. It is a weighted average of tons, yards, gallons,—in effect, the *number* of things produced each month. It does not refer to construction put in place (although the production of materials used in construction is included). It does not measure trade, the volume of business done by stores. It does not refer to the stock market in any way. It simply adds up the items that



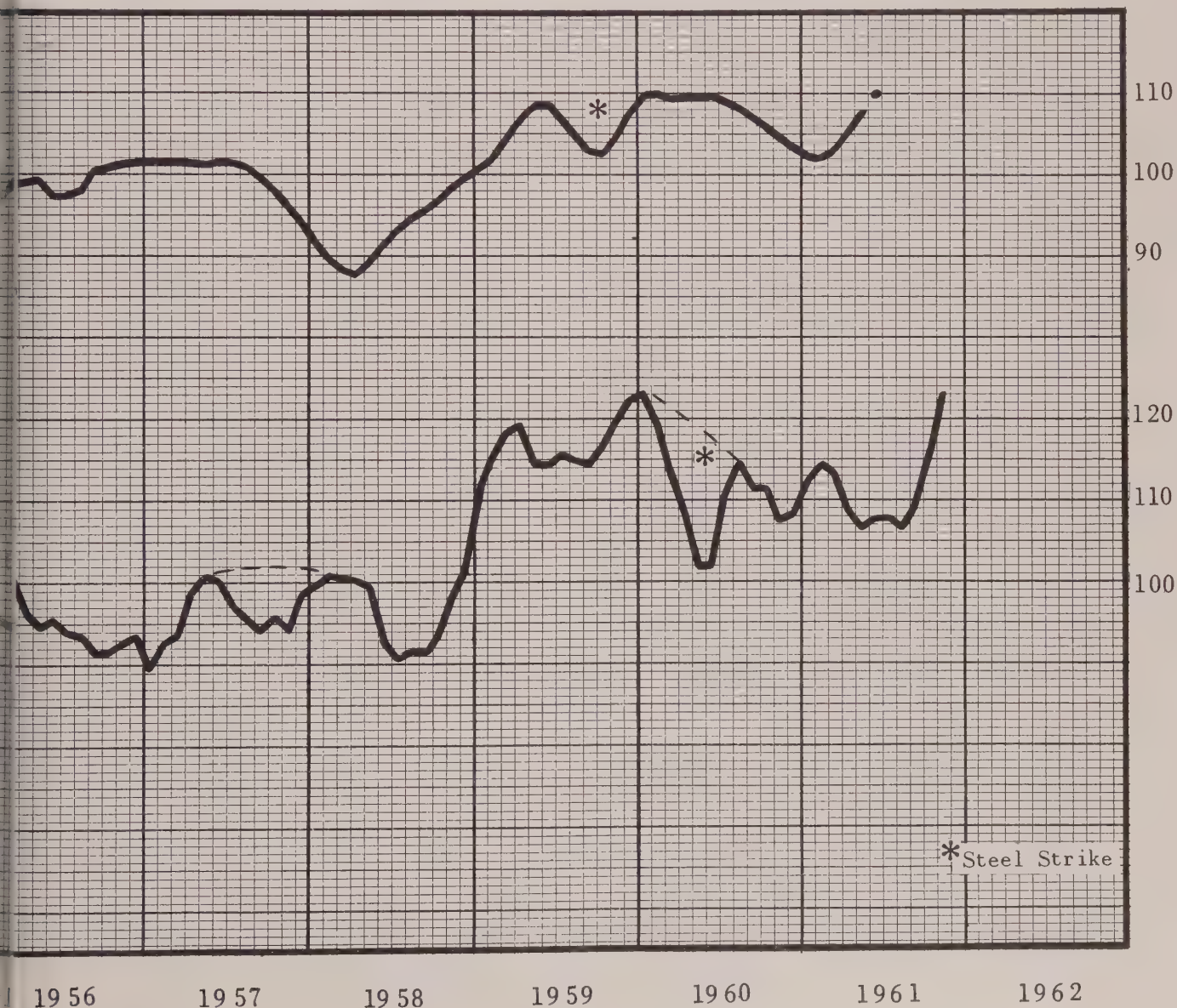
ere manufactured and mined. (It also includes  
roduction by electric and gas utilities).

Production of goods as measured by the  
F.R.B. Index is in terms of what happened in  
1957. When the Index is at 110 (the June 1961  
preliminary seasonally adjusted value) it  
means that June production was 10% above the  
average 1957 level. You can see on the chart  
that the production line hovers around 100  
during 1957.

The Indicator line on the chart is the  
Modified Geisinger Indicator as shown on the  
past two pages, except that the values have  
been multiplied by two, and the slope added to  
it. Also, the Modified Geisinger Indicator  
line is shown here advanced eight months so  
that the time comparison between the Indicator  
line and the production line is direct.

The Modified Geisinger Indicator bounces  
around, and in comparing the two lines the eye  
has to follow the general course of the line  
rather than each little wiggle. The broken  
line is added to aid the eye in seeing the  
flow of the curve.

There has been a *general* agreement between  
the two lines over the period since 1947. How-  
ever, the agreement is not so specific that  
*all* the turns on the Indicator line have been  
matched by major turns on the F.R.B. line.  
Also, long high levels of production have  
usually (1951, 1953, 1956, 1957, 1960) gone  
hand in hand with some decline in the indi-  
cator. There is not *complete* agreement between  
the lines. Although the comparison here prob-  
ably rates "fair," it is wiser to pay closer  
attention to the plus 2 good times and minus 2  
poor times signal. G.S.



# the september round-up

*a review of how the CYCLES "came out"  
and where the CYCLES indicate we may be heading*

## LONG PRODUCTION CYCLES NOW GOING DOWN

Since 1953 there has been a serious slackening in the rate of growth of industrial production in the U.S.A. From 1947 through 1953 the rate of growth was almost 6% a year. From 1953 through 1960 the rate of growth was about 3% a year. The 1954—1960 rate is only half as great as the 1947—1953 rate.

Back in January of 1954, I told you about the great 36- and 50-year cycles that have dominated production in this country for as far back as figures were available. I told you that we had already passed the time of ideal crest of the 36-year cycle (1953), and that the ideal time of crest of the 50-year cycle was immediately ahead (1955).

If you had not had this knowledge, you might be surprised and alarmed at the somewhat drastic change in the slope of the trend. The

drag introduced by the apparent turnover of these two important cycles may well account for the change in the slope of the trend from 6% to 3% a year.

Even though early 1960 had record production—more goods were produced than ever before in this country—this record was well below what would have occurred if the 1947—1953 rate of growth had continued. See Figure 1 below. It shows the F.R.B. Index through 1953. The broken line is the 6% straight line trend that was established over this period.

The Index weaves above and below the trend. When times are good, production goes above the trend. When times are poor, production dips below the trend. Based on the figures through 1953 only, as shown on Figure 1, the 6% trend line looks reasonable. At the end of

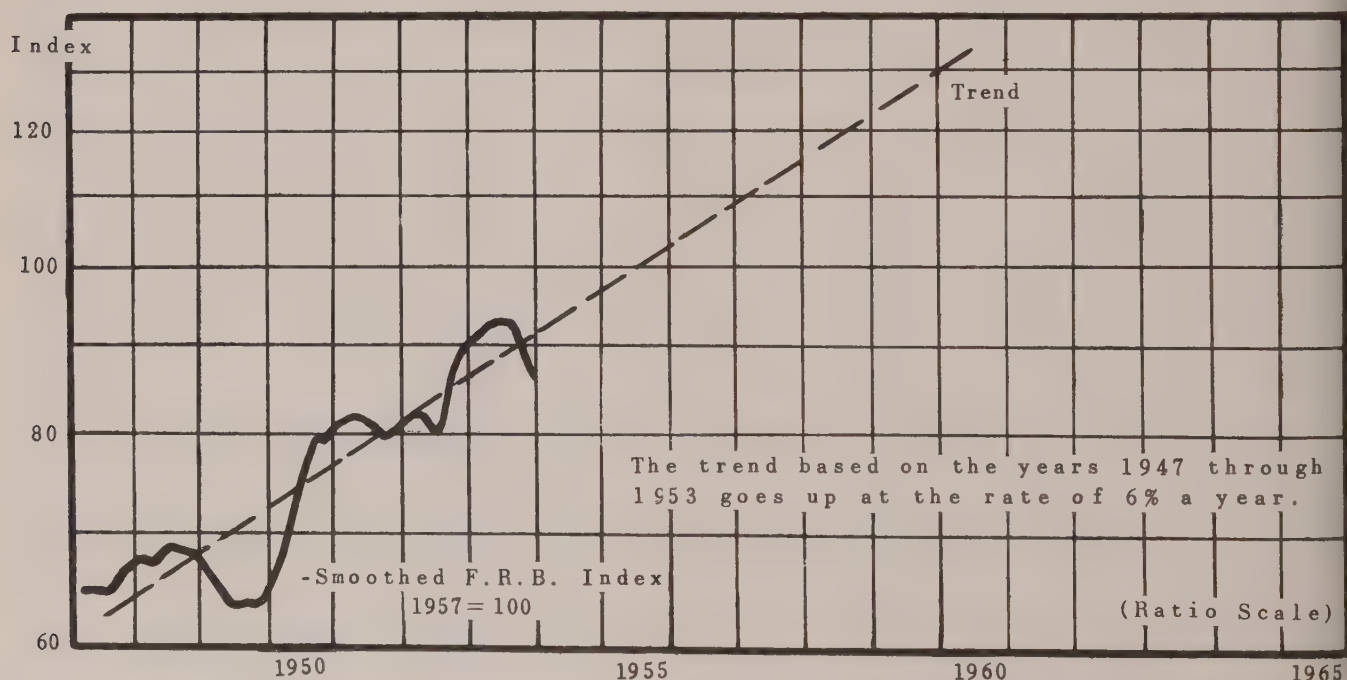


FIG. 1: The F.R.B. Index and Trend — 1947 through 1953

1953, without the cycle knowledge, there would have been little reason for expecting the slope of the trend to change.

And, if this underlying 1947—1953 growth force had continued, the *trend* at 1960 would have been over 130 (using the 1957=100 index). As 1960 was a good year, this means that actual production would have been above rather than below the trend. That is, if the first

growth trend established after World War II had continued to 1960, production in 1960 would have been higher than 130.

Figure 2 shows what actually happened in relation to what might have been expected, if you hadn't known about the cycles. The trend from Figure 1 is repeated here, and the F.R.B. Index is brought up to date. Production stayed consistently below the trend, even in boom

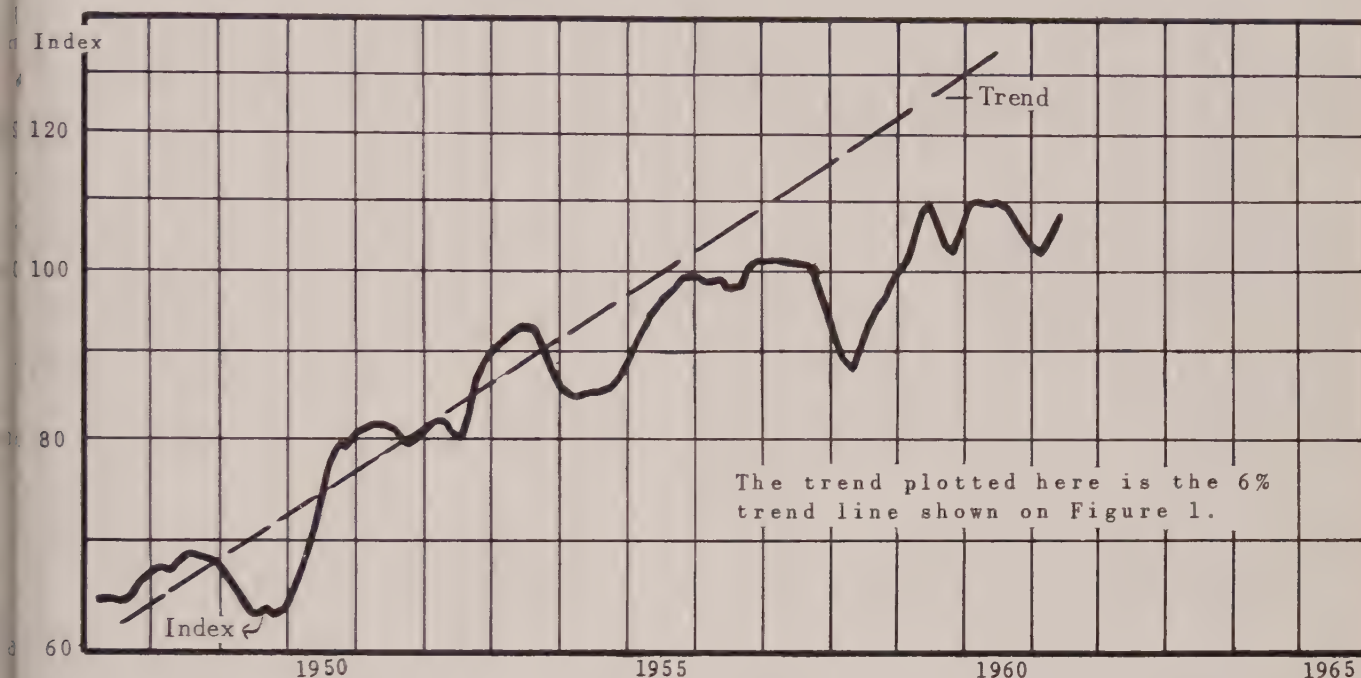


FIG. 2: The F.R.B. Index 1947—1960 vs the 1947—1953 Trend

periods. The 1960 F.R.B. Production Index averaged 108.0, not coming even close to 130. Apparently a new trend had developed. *The trend line from Figure 1 was no longer applicable.* Based on inspection alone, this fact was not apparent until the 1956 and 1957 peaks failed to exceed the trend.

The 1954—1960 period showed a growth of only about 3% a year, just half the previous rate. On this basis it takes seven additional years—to 1967—before the basic underlying trend of the production index reaches the 130 level. See Figure 3.

You can slide around the uncomfortable change in the slope of the trend in postwar

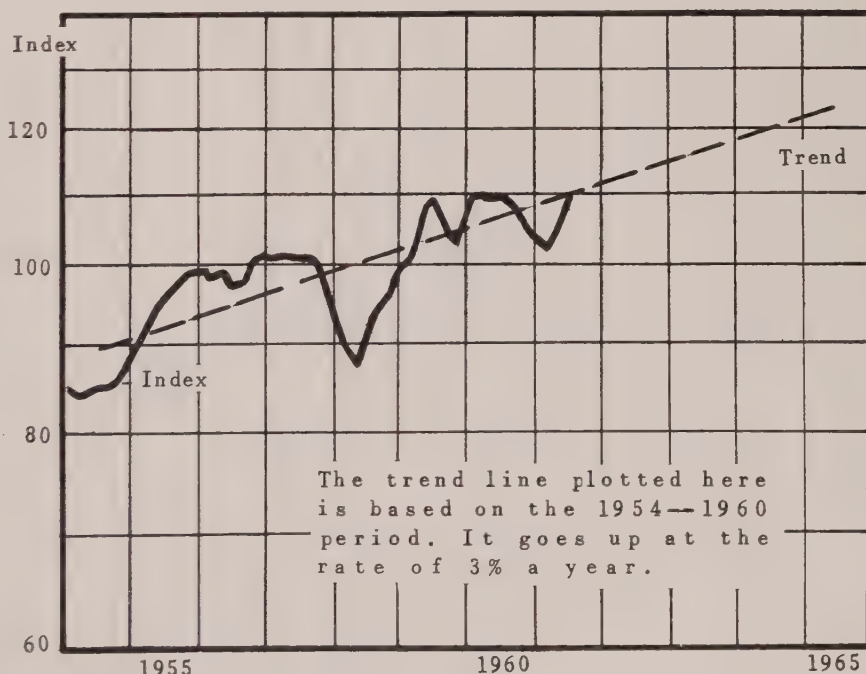


FIG. 3: The F.R.B. Trend — 1954 through 1960

production by figuring trend over the entire period 1947—1960. The result would then come in-between the higher trend level shown on Figure 2 and the lower level shown on Figure 3. But, this trick would slide over the fact that the postwar slope of the growth trend of production has been reduced as expected from

a knowledge of the 36- and 50-year cycles. Ignoring such an important economic fact will not make it go away. Until there is evidence to the contrary, the lower slope shown on Figure 3 is the line above and below which actual production can be expected to oscillate.

E.R.D.

\* \* \*

## CYCLES IN THE "LEADING INDICATORS"

The outlook based on the leading indicators is mixed. Details are shown in the charts below. I rate four of the indicators good, three neutral, and one, the price of sensitive commodities, bad. This index is down from the peak it reached in April. Even though we do not as yet have a regular cycle analysis of this item

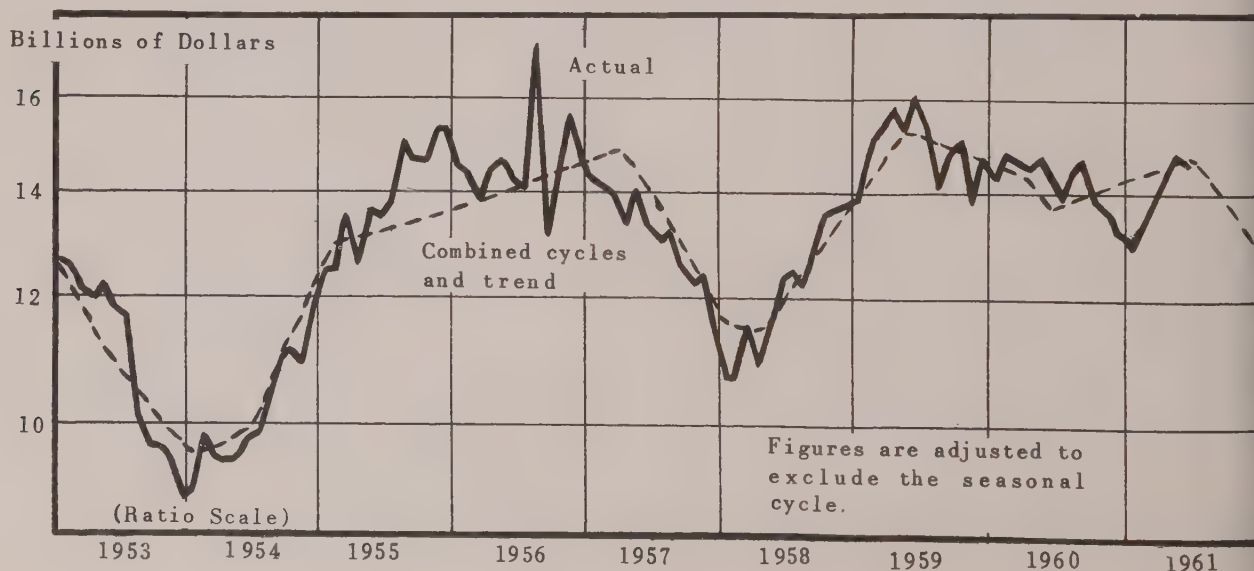
we include it so that you can have a complete picture of the current status of this group of economic series.

According to the National Bureau of Economic Research, the series which follow tend to turn ahead of business in general. See also the Geisinger Indicator on page 221. E.R.D.

## NEW ORDERS FOR DURABLE GOODS

Manufacturers' new orders for durable goods (after adjustment for the seasonal cycle) were estimated by the Department of Commerce to total \$14.7 billion during the month of June. This total represents a recovery of 14% from the January low of \$12.9 billion, but it is still 9% below the peak of June 1959. The cy-

cles which are added to an assumed underlying trend are 25.5 months and 50—56 months in length. Together they exert a slightly downward force for the balance of this year. However, the cycles can be completely overwhelmed by random factors, such as greatly increased defense expenditures.

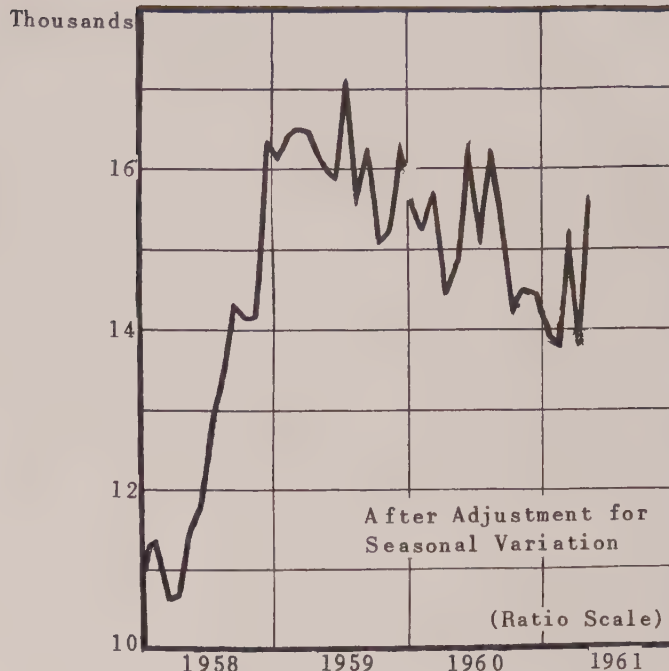


## NUMBER OF NEW INCORPORATIONS

There is a seasonal cycle in the figures for new incorporations. This cycle has been removed from the figures which are plotted here. March runs about 10% above what it would be were there no seasonal pattern. April runs 8% above, and May runs 4.5% above.

The figures, which are compiled by Dun & Bradstreet, have been reduced by that portion which is due, on the average, to the season of the year. The May total for new incorporations was 16,371 as reported by Dun & Bradstreet. After the adjustment the total is 15,666, and this is the value plotted on the chart.

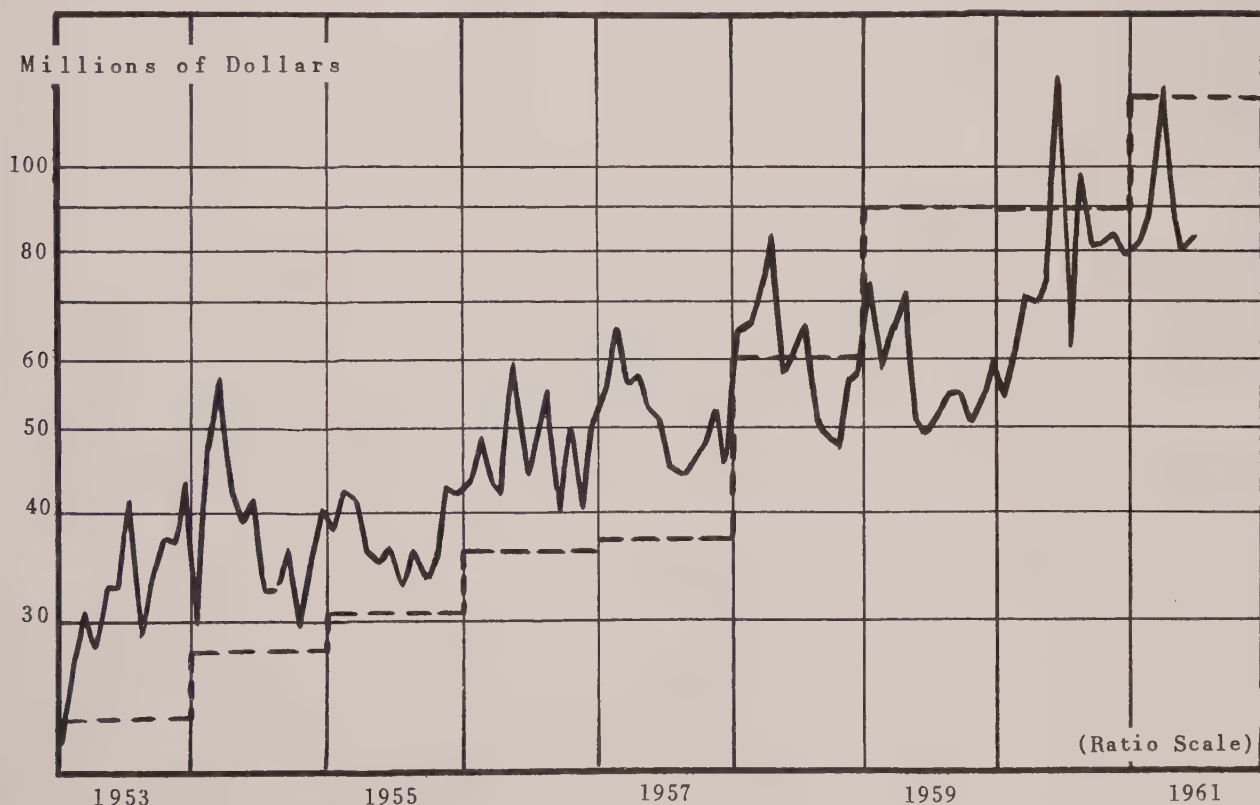
Beginning with January 1960 the figures are for 50 states, which is the reason for the break in the chart. G.S.



## LIABILITIES OF COMMERCIAL AND INDUSTRIAL FAILURES

The liabilities of commercial and industrial failures were down in May and June to about the \$80 million level. (These figures are also compiled by Dun & Bradstreet.) Remember that with this series, a decrease is a good sign. When business is bad, or about to become bad,

failures increase, and liabilities go up. The solid line on the chart shows actual monthly totals of liabilities. The broken line is the yearly level of the combination of five cycles and an assumed underlying trend.



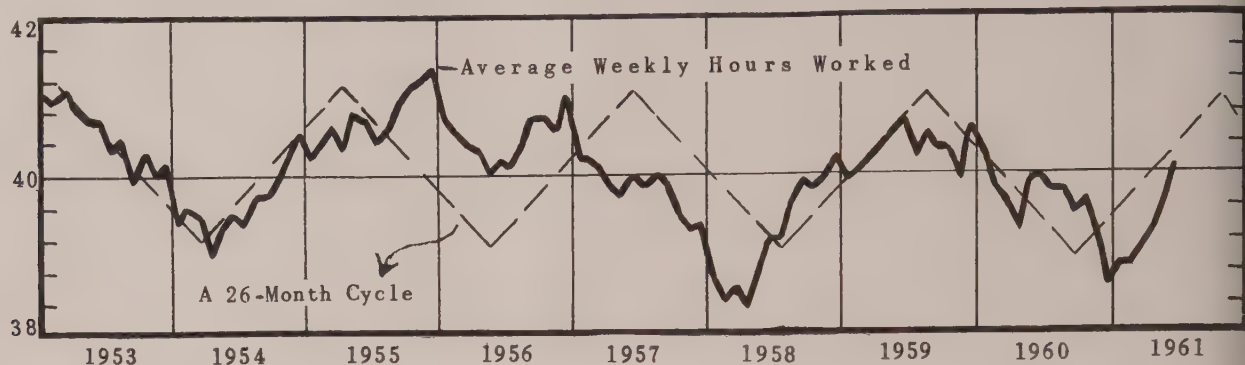
## AVERAGE WEEKLY HOURS WORKED IN MANUFACTURING

The actual record of hours worked matched (within three months) the ideal low of the 26-month cycle. This low is the seventh in this cycle since World War II. The actual low month was December, when an average of 38.6 hours were worked per week in manufacturing. In June the average work week was 40.1 hours.

The 26-month cycle will be exerting an upward force until October of this year, after which it will turn down again—if it continues to operate as well as it has since World War II. Since World War II the hours worked have

moved between a high of 41.5 and a low of 38.5. In addition to the 26-month cycle, hours worked have also shown a slight downward trend. The trend level at present is about 39.5 hours, and the June average of 40.1 hours is thus above the current trend.

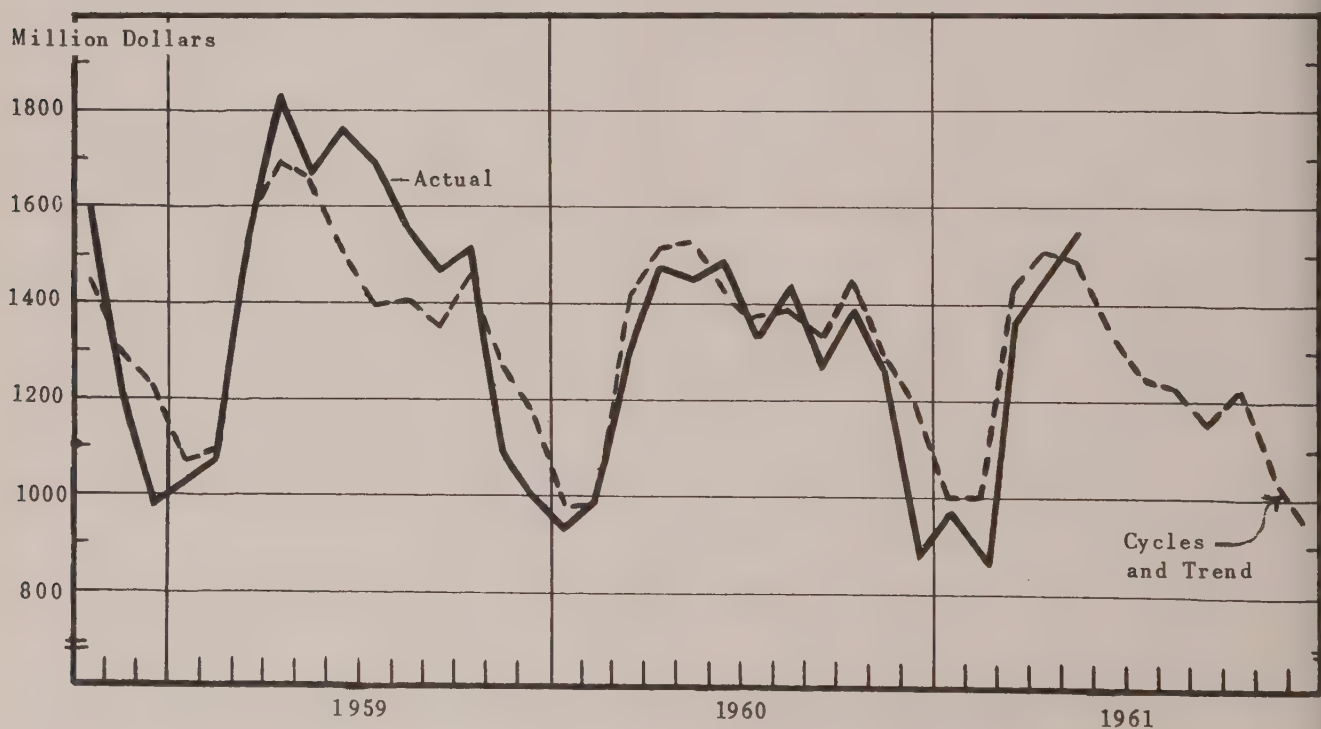
An advantage of having a cycle study of a leading indicator is that moves in a direction opposite to the cycles can be considered suspect. Changes in the same direction as the average cycle are to be expected.



## RESIDENTIAL CONSTRUCTION CONTRACTS

Residential construction contracts during May totaled \$1,553 million, as compiled by F. W. Dodge Corporation. These figures are

shown by the solid line on the chart. The combination of the cycles and trend we found in the figures is shown by the broken line.

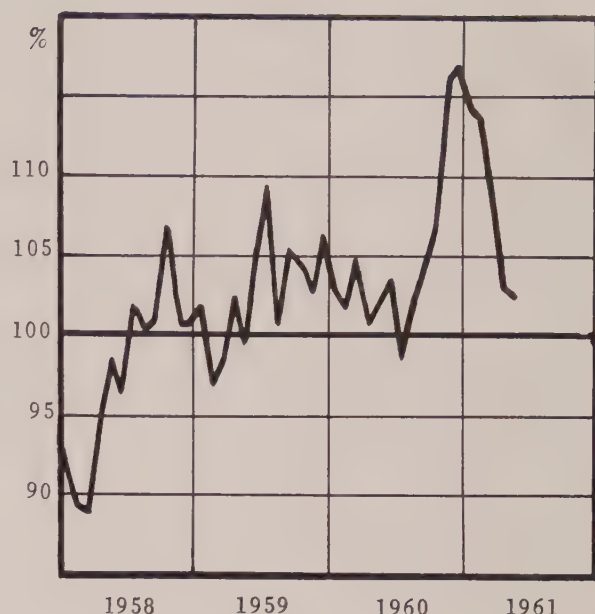


# NONRESIDENTIAL CONSTRUCTION CONTRACTS

The value of nonresidential construction contracts was \$1,105 million during May. These figures are compiled by F. W. Dodge Corporation, and are charted below. The chart shows clearly the seasonal cycle which dominates the series. The *ideal* seasonal cycle normally has a high at July of 117% of the yearly average, and a low at February of 80% of the yearly average. Summer highs and winter lows are normal in the building industry. The question is if the ups and downs are more than normal.

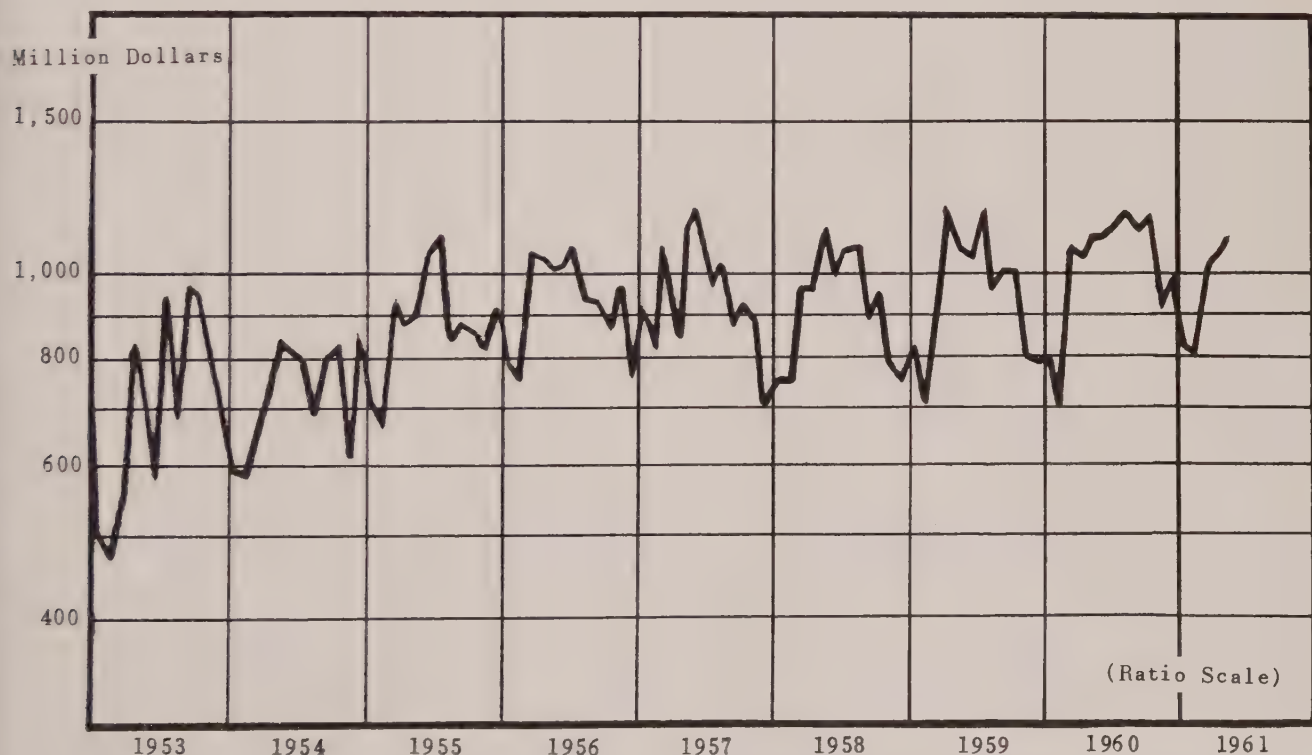
To eliminate the seasonal cycle and see what happened beside the ups and downs of the seasons, the chart opposite was drawn. It shows the months as a percentage above or below the same months of the previous year. As long as the per cent is above 100, contracts are running ahead of the previous year for the most recent four month period.

The bulge in late 1960 and early 1961 came because the winter low was running above that of the previous year. Actual dollar figures did go down, but not as far as they had in late 1959 and early 1960. These figures are national; local situations may be quite different.



A Smoothed One-Year Per Cent Curve of the Value of Nonresidential Construction Contracts

This Chart Eliminates the Seasonal Variations

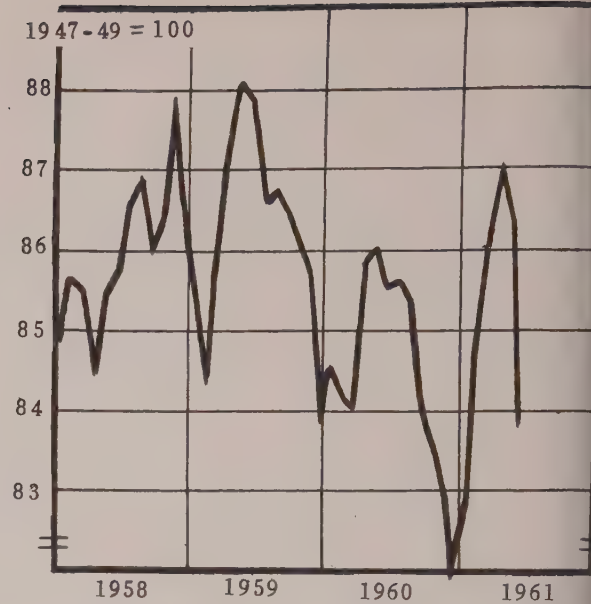


The Value of Nonresidential Construction Contracts (F. W. Dodge)

# THE B.L.S. PRICE INDEX OF 22 COMMODITIES

The index of sensitive prices is published weekly by the Bureau of Labor Statistics. We averaged the weekly figures to obtain the monthly values which are plotted on the chart.

This series is the only one of the leading indicators which is down materially from the spring highs. The weekly high at April 11 was 87.3, but at June 20 the weekly index was down to 83.1, a drop of 5%. The *monthly* average for June, which is plotted on the chart, is 83.8. At July 11 the weekly index was 84.5 and this does represent some recovery from the June 20 low.



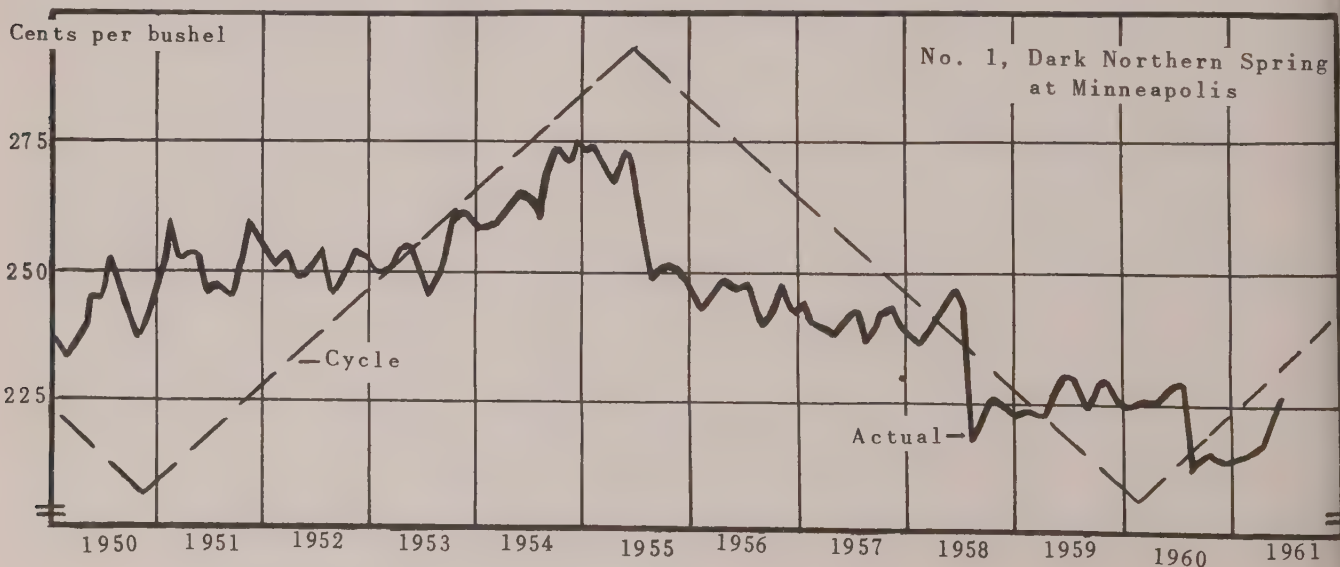
\* \* \*

## CYCLES IN COMMODITY PRICES

### WHEAT

The price of No. 1, dark northern spring wheat at Minneapolis was \$2.269 a bushel during the month of June. The most recent low was at August 1960, when the price was \$2.12. The August 1960 price was the lowest in many

years, and came within half a year of the average low of the ideal 9.3-year cycle. This ideal cycle, if it continues to operate, will be exerting an upward force on wheat prices until October 1964.

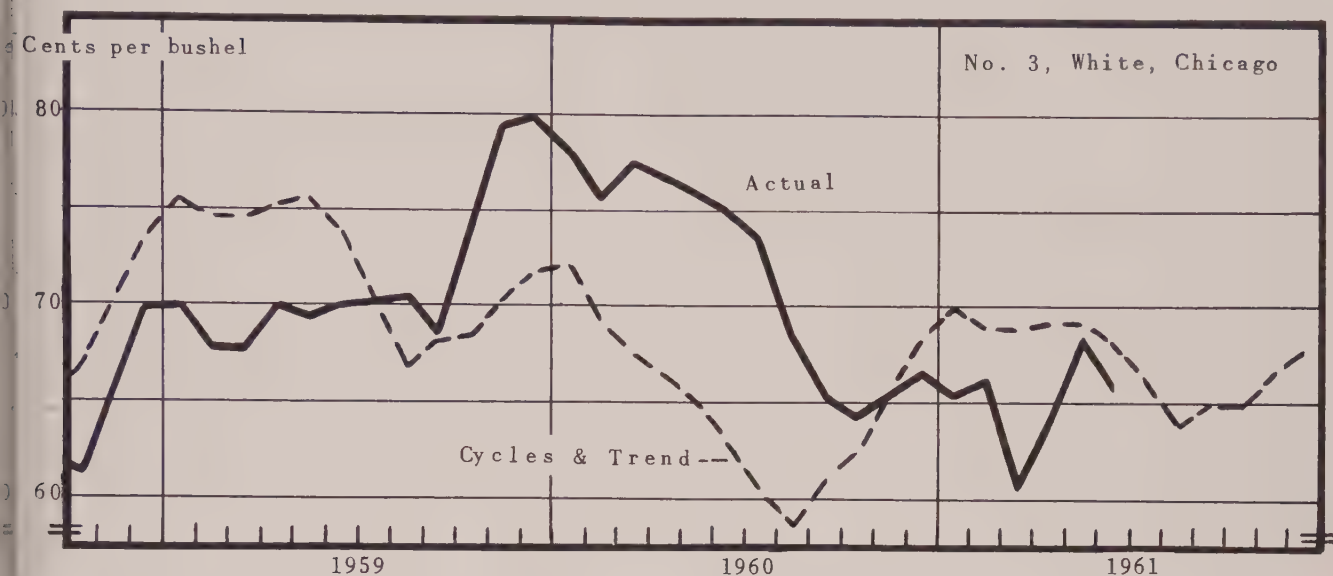


## OATS

The main feature of oats prices for the past twenty or so months has been the downward trend. The trend which we were using with the two cycles in oats prices has been revised in this issue to take the steady downward trend into account. The extension of the trend is dropped to the 63 cent level by the end of

1961. The two cycles which are combined with the trend are 12 months and 26.64 months long. The 12-month cycle has a low, on the average, at August, and this low is important enough that it can be seen in the combined line.

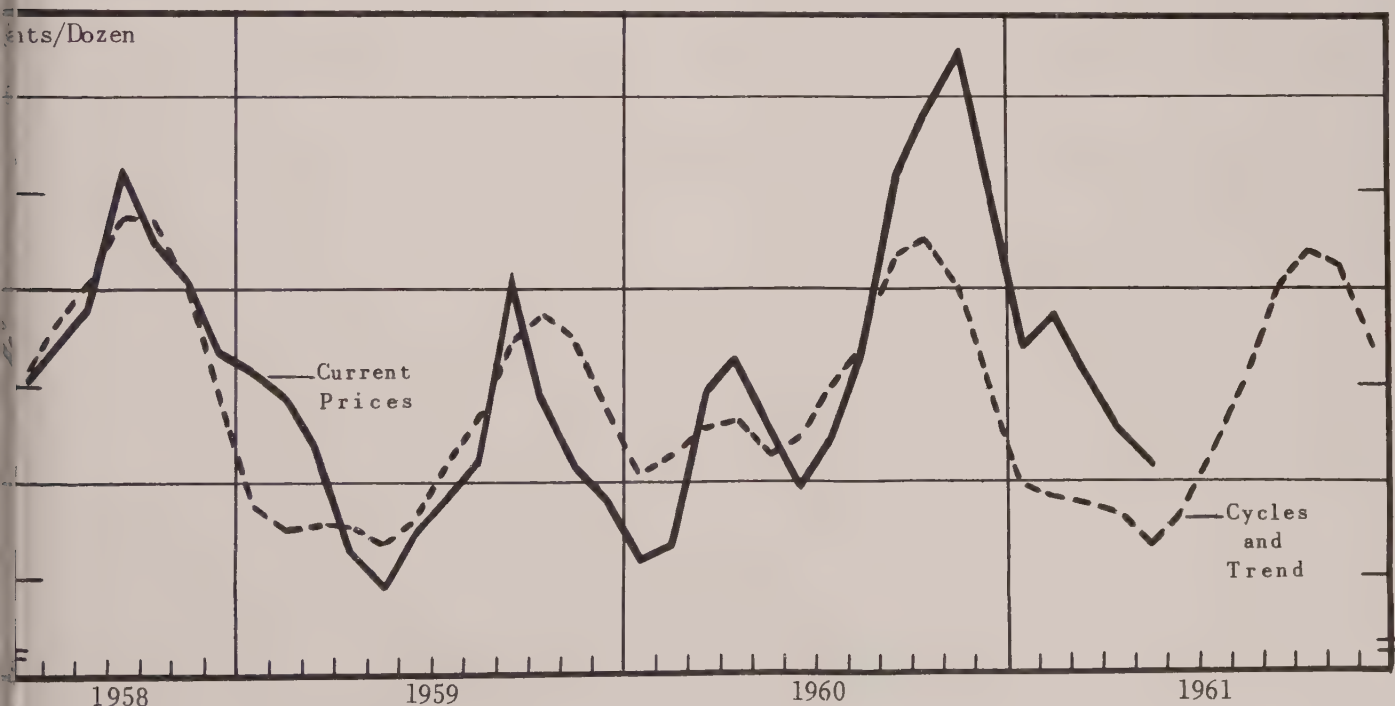
The actual price of oats averaged 65.8 cents a bushel during June.



## EGGS

The price of eggs averaged 30.8 cents a dozen during May (the latest figure available as we go to press, August 4). The cycles which

are included in the broken line are 12 months and 26.5 months long. No change has been made on this chart since it was used in April.

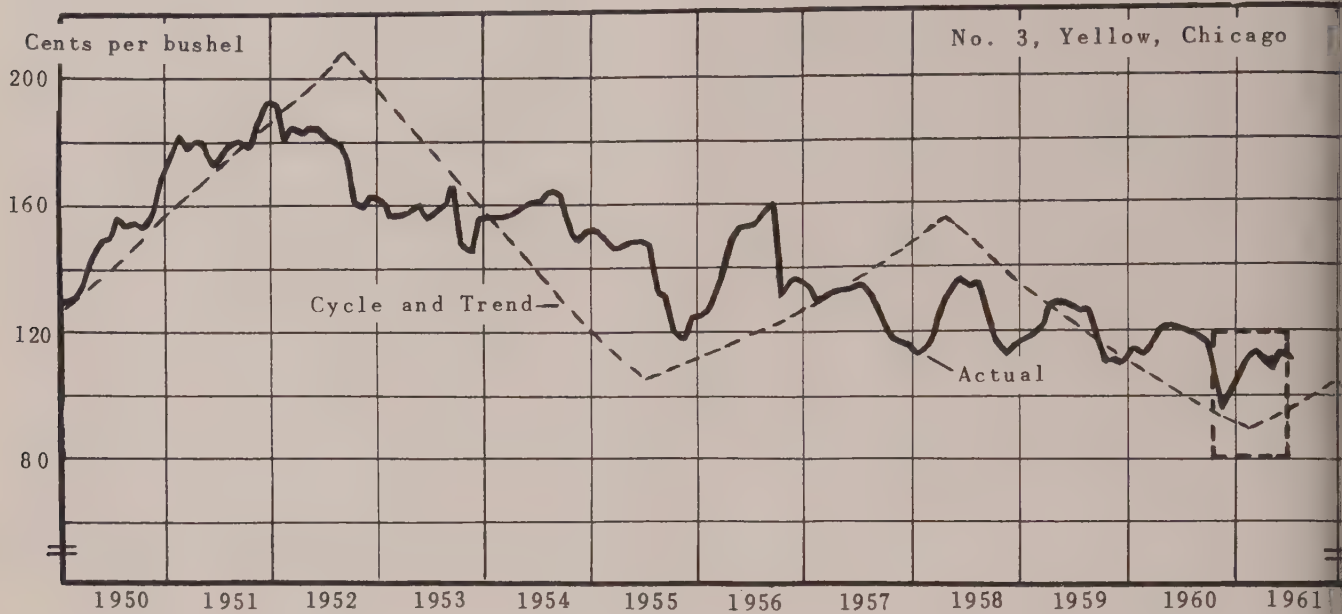


## CORN

The price of corn (No. 3, yellow, at Chicago) has been moving within the most probable limits for the recent low of the ideal 67 1/3-month cycle. See the box on the chart. These limits were established in the article on corn prices published in June 1957. At that time it was stated that "the odds are 6 to 3 (2 to 1) that the low due ideally in February 1961 will

fall between October 1960. . . and June 1961." The low month apparently was November when corn averaged \$0.96 a bushel. The June 1961 price was \$1.116.

The ideal cycle, which is shown combined with trend on the chart, continues upward until December 1963.

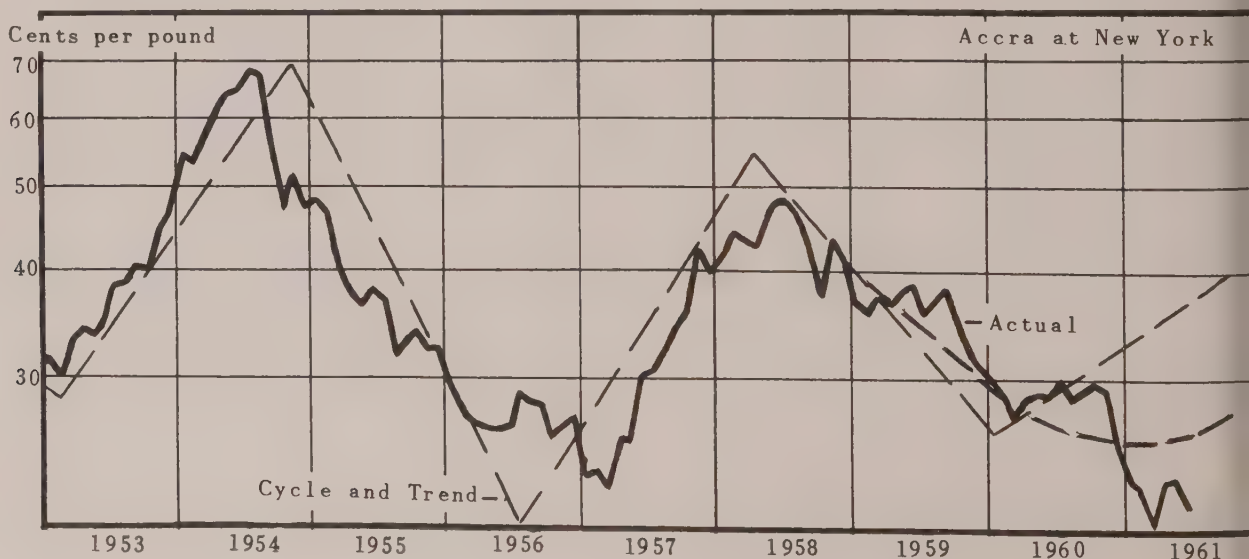


## COCOA

The price of cocoa beans continued its downward trend into the first six months of 1961. The price of 20.5 cents a pound in March was

the lowest since 1949. During June the average price was 21.5 cents.

There is a 41.7-month cycle in these fig-



prices which has "worked" three times out of four since 1923. There was a low on this cycle ideally at January 1960. The ideal cycle, based on the average past behavior of the data, has a top due at October 1961.

The recent dip in prices is counter to the upward force of the ideal 41.7-month cycle. As has pointed out in the January 1960 article on cocoa, any hint the cycle may give us as to what is ahead for cocoa prices must be tempered by common sense. Although the record of this cycle is good—up to 1961—at this point we should wait and see what happens between June and October. A comparison of the ideal cycle and the actual price is shown in the opposite column.

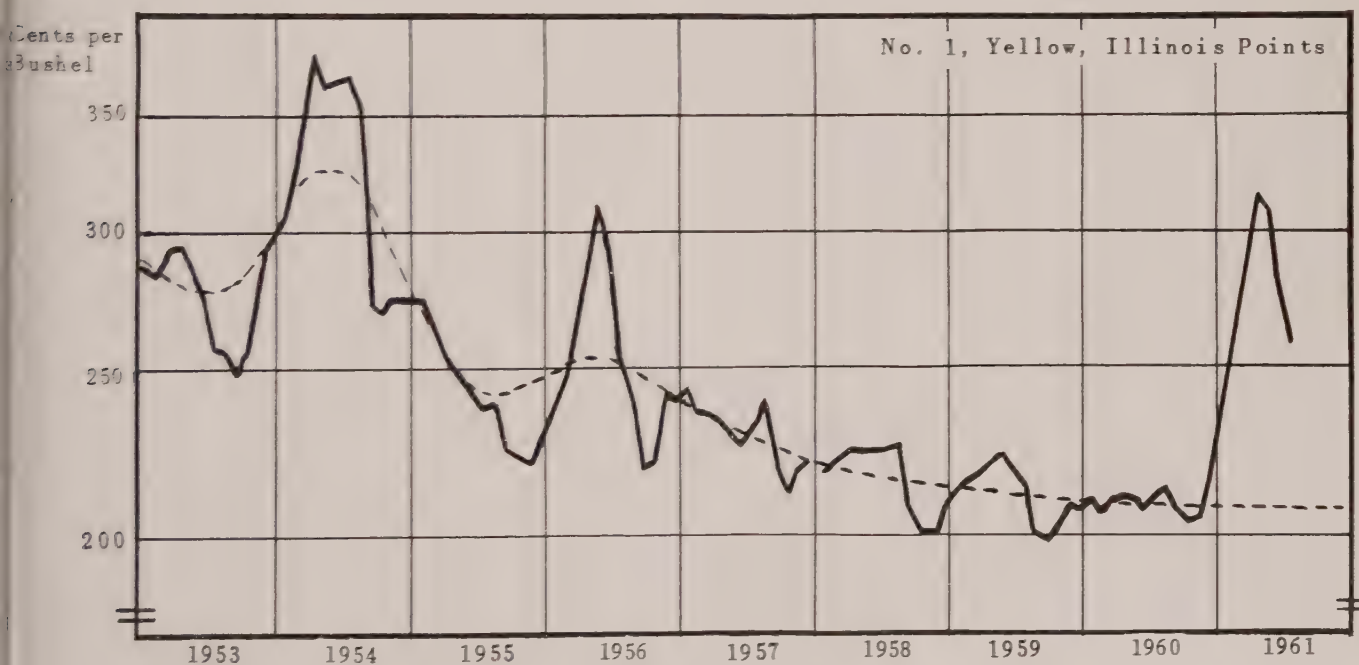
A revision of the underlying trend is in order, also. The drop in prices from the July 1958 high of 48.9 cents to the March 1961 low of 20.5 cents may represent basic noncyclic weakness and the trend can take this into account. The chart shows the combined cycle and trend line both before and after revision.

| Turning Points<br>Ideal Cycle |          | Cycle<br>Move | Actual<br>Price | Price<br>Move | Match |
|-------------------------------|----------|---------------|-----------------|---------------|-------|
| High                          | Jul 1923 |               | 6.9 ¢           |               |       |
| Low                           | Apr 1925 | Down          | 8.1             | Up            | No    |
| High                          | Jan 1927 | Up            | 16.1            | Up            | Yes   |
| Low                           | Oct 1928 | Down          | 14.8            | Down          | Yes   |
| High                          | Jul 1930 | Up            | 8.7             | Down          | No    |
| Low                           | Apr 1932 | Down          | 4.5             | Down          | Yes   |
| High                          | Dec 1933 | Up            | 4.2             | Down          | No    |
| Low                           | Sep 1935 | Down          | 5.2             | Up            | No    |
| High                          | Jun 1937 | Up            | 7.4             | Up            | Yes   |
| Low                           | Mar 1939 | Down          | 4.7             | Down          | Yes   |
| High                          | Dec 1940 | Up            | 5.3             | Up            | Yes   |
|                               |          |               |                 |               |       |
| High                          | Nov 1947 |               | 51.0            |               |       |
| Low                           | Aug 1949 | Down          | 18.5            | Down          | Yes   |
| High                          | May 1951 | Up            | 38.3            | Up            | Yes   |
| Low                           | Feb 1953 | Down          | 30.0            | Down          | Yes   |
| High                          | Nov 1954 | Up            | 51.8            | Up            | Yes   |
| Low                           | Jul 1956 | Down          | 29.0            | Down          | Yes   |
| High                          | Apr 1958 | Up            | 42.9            | Up            | Yes   |
| Low                           | Jan 1960 | Down          | 29.5            | Down          | Yes   |
| High                          | Oct 1961 | Up            | ?               | ?             | ?     |
| Low                           | Jul 1963 | Down          |                 |               |       |

## SOYBEANS

Since January the price of soybeans have been running at the highest levels in five years. The preliminary July price was \$2.58 a

bushel. Soybean prices normally go up from October to May because of the 12-month cycle, but this year's rise is more than normal.



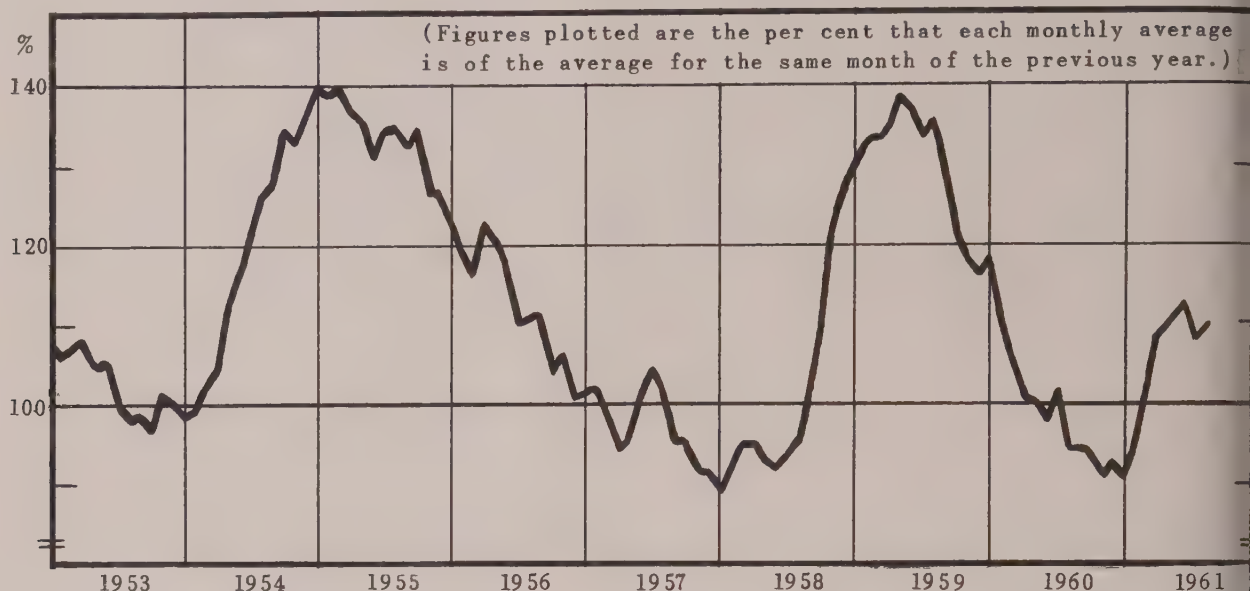
# CYCLES IN THE STOCK MARKET

## THE ONE-YEAR PER CENT CURVE

The following chart shows the recent behavior of the Dow-Jones Industrial Average compared to the previous year. The last plot is for July 1961.

The 100% line represents the level of the same month of the previous year, whatever that

level was. That is, July 1961 was 110.4% of July 1960, and is plotted at 10.4% above the 100 line. When the monthly average of the Dow Jones Industrial daily close dips below what it was for the same month of the previous year, the plotted value dips below the 100 line, as happened during 1960.

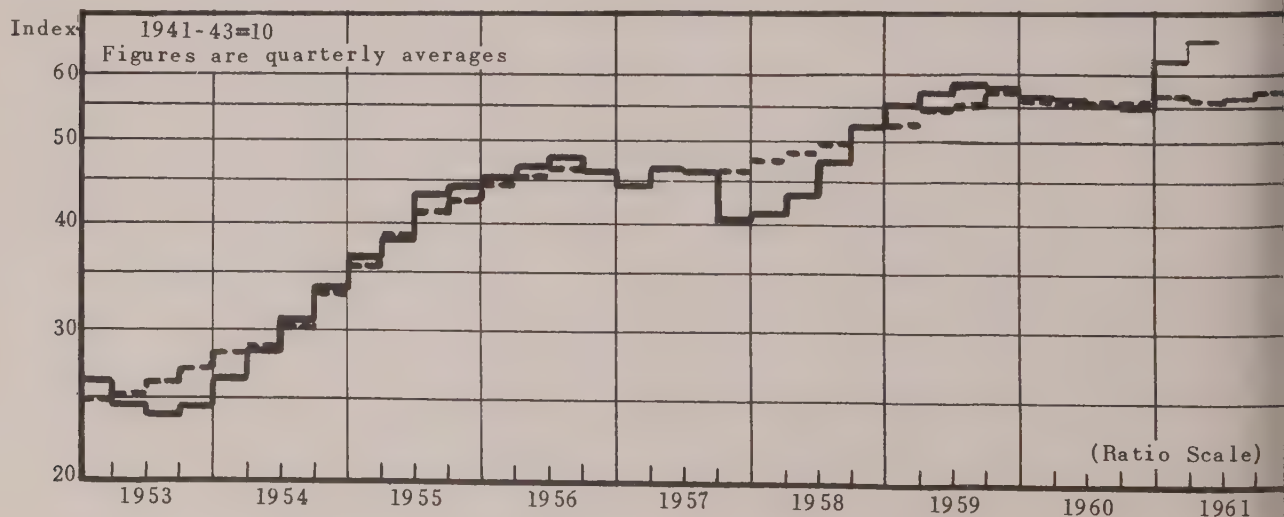


## CYCLES IN S & P'S 500 INDEX

The broken line on the chart shows the combination of 11 long cycles and a short term underlying trend in Standard & Poor's Combined Price Index of 500 stocks. The solid line is

the quarterly average of the actual index.

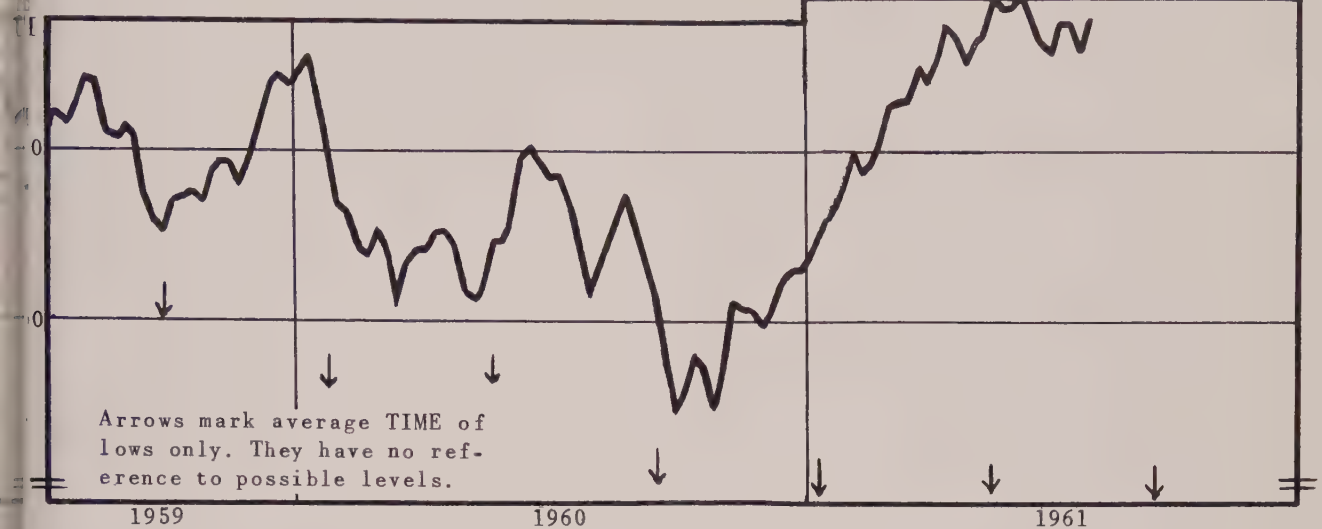
The forces of inflation, other cycles not included, and noncyclic factors are keeping the two lines apart.



## 17-WEEK CYCLE

They are based on the average past behavior of the series, and are not intended as signals.

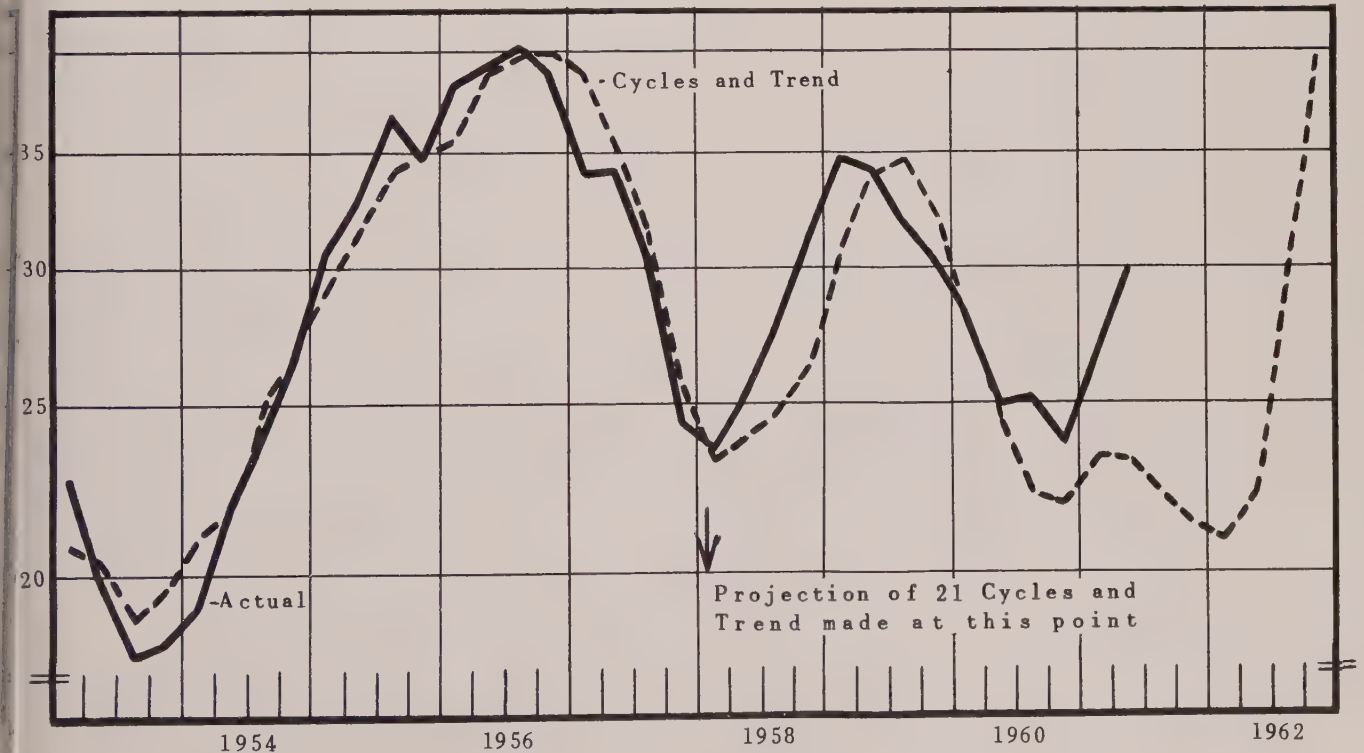
This chart is based on the weekly average of the Dow-Jones Industrials daily close. It is plotted as the solid line. Arrows mark the time of low in the ideal 17 1/6-week cycle.



## THE PRICE OF COPPER SHARES

Standard & Poor's Index of the price of copper shares was up during the second quarter. (The solid line below). The broken line includes 21 cycles and trend. Up to now, the comparison between the lines has been good.

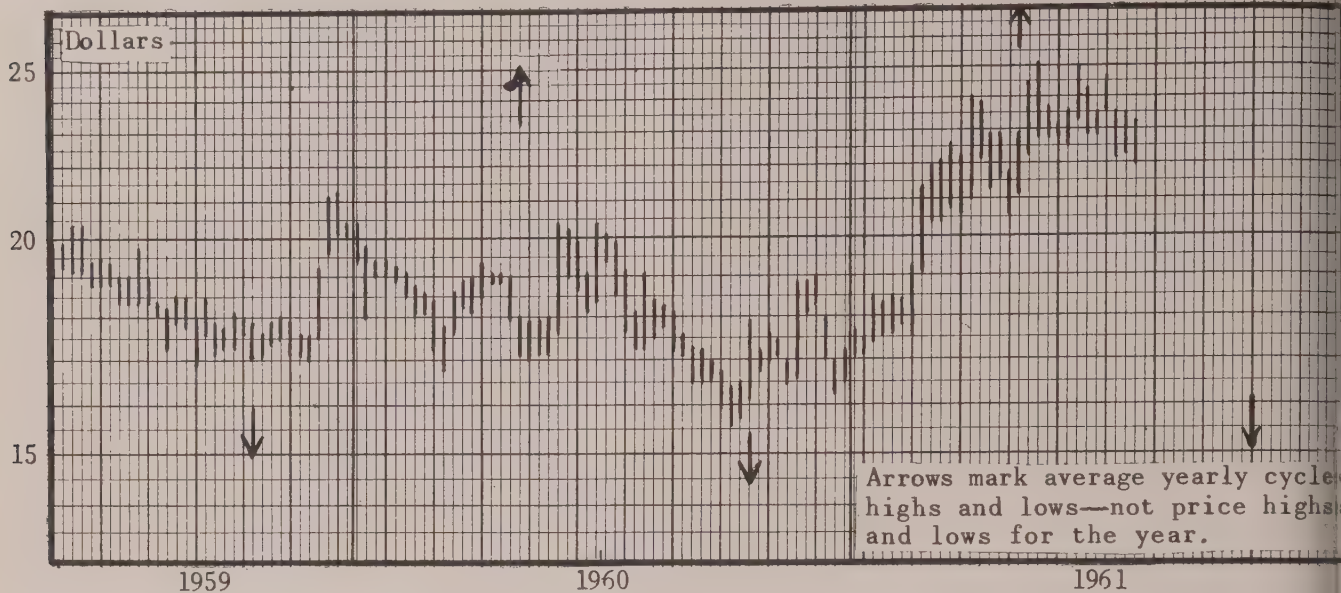
The broken line is not a "forecast" in the accepted use of the word. Rather, it is an extension of 21 possible cycles. Further experience will tell if they are all real, and are continuing to operate.



## FEDDERS - QUIGAN

The recent weekly high and low price of Fedders-Quigan are noted on the chart below. The timing of the highs and lows in the ideal yearly cycle is marked by arrows. On the average, the yearly cycle high comes about the

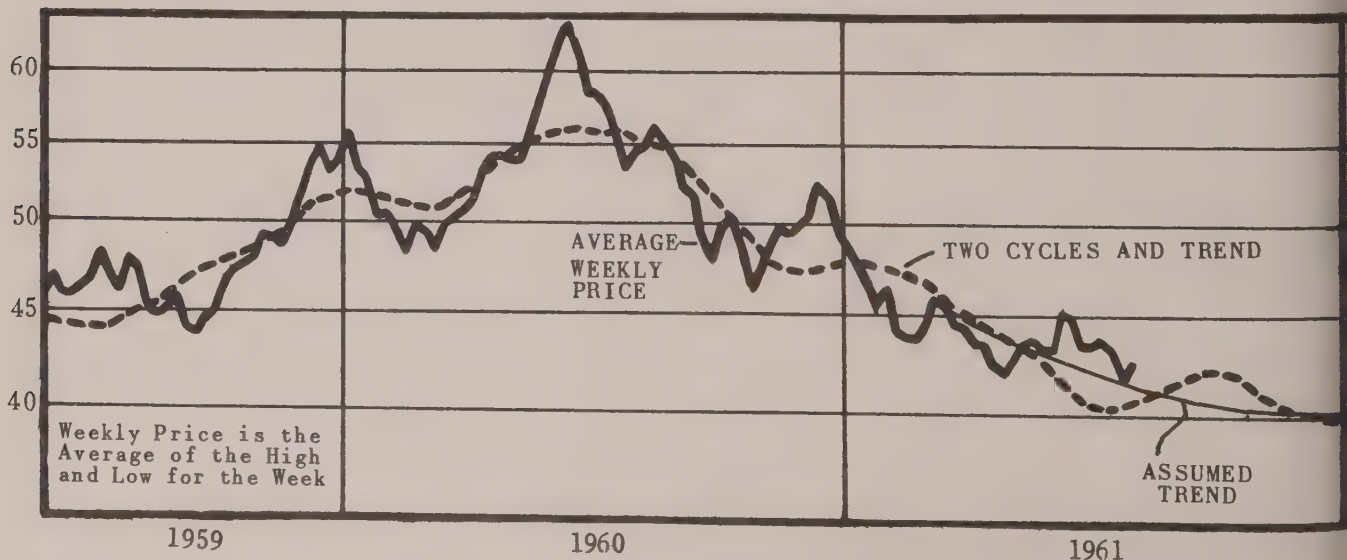
18th week of the year, and the low comes about the 42nd week of the year. This average behavior is based on the record since October 1951. Individual years will of course vary from the average of all the years.



## WESTINGHOUSE ELECTRIC

The chart below gives the average weekly price of Westinghouse Electric common stock by means of the solid line. The broken line shows the result of combining a 17.63- and a

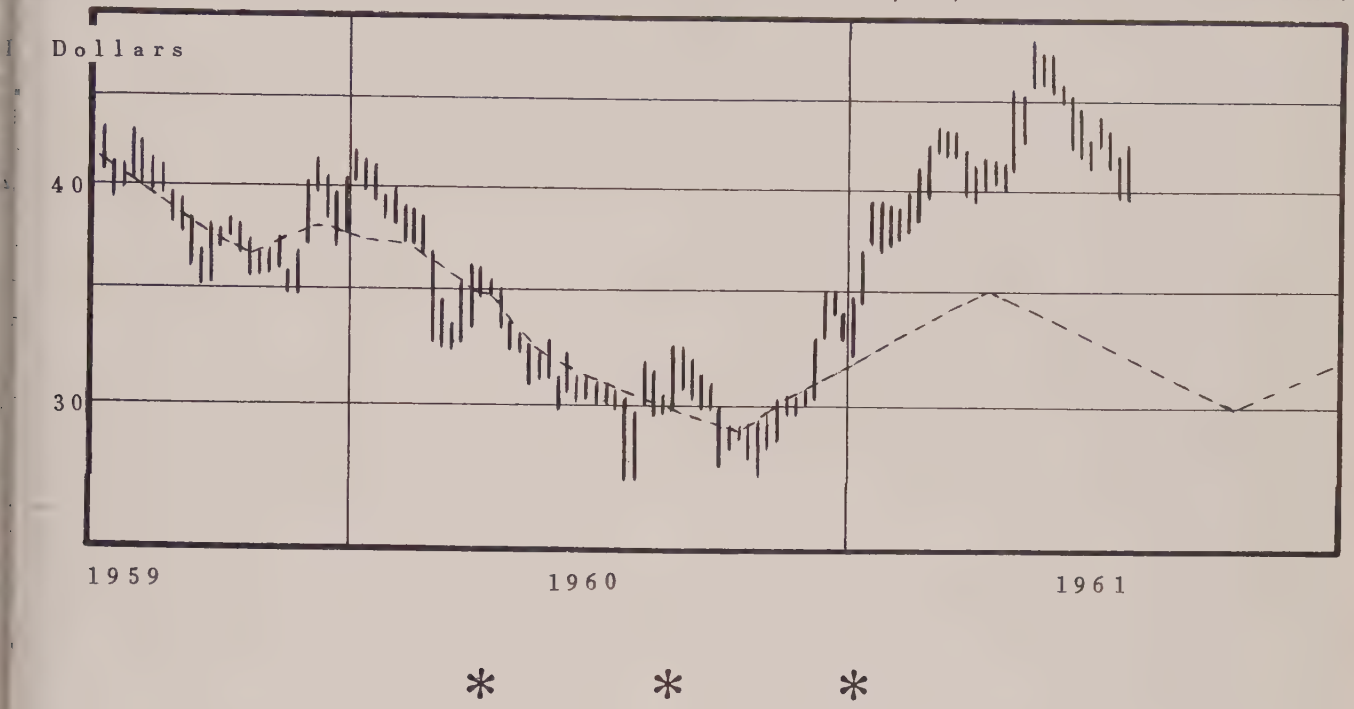
32-week cycle with an assumed trend. The trend is shown separately so that if you think it is too high or too low, you can lower or raise the combined line accordingly.



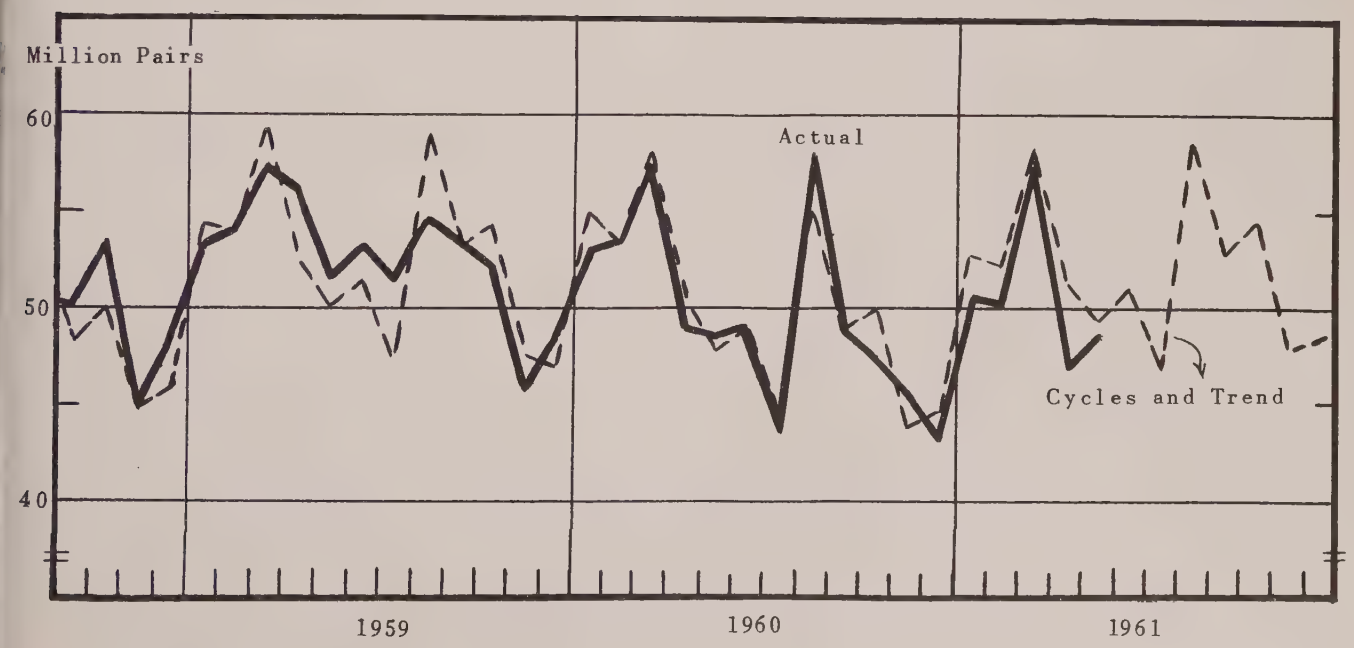
# CARRIER CORPORATION

The ideal yearly cycle in Carrier Corporation common stock is shown combined with an underlying trend which apparently is too low.

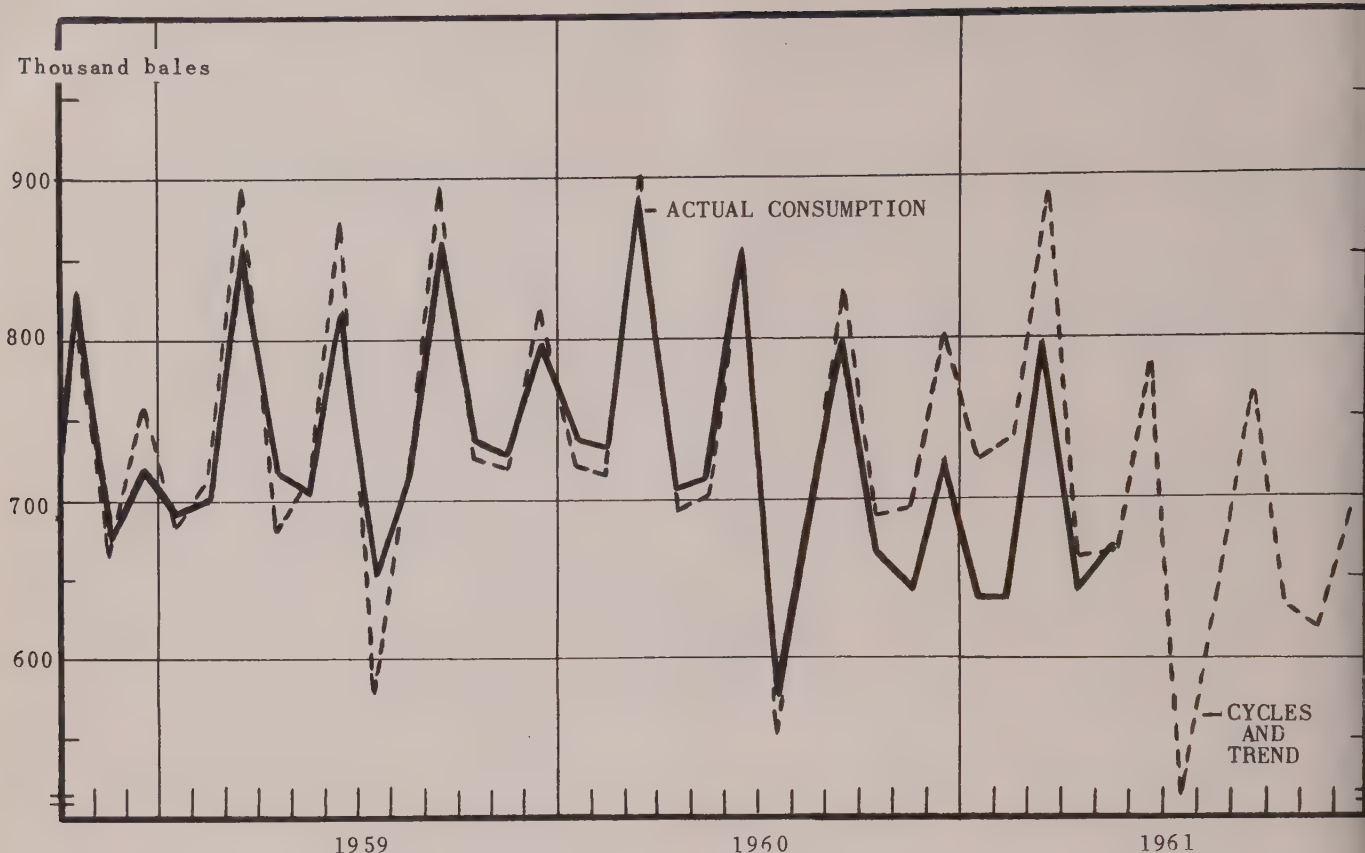
In any case, the ideal yearly cycle has a high, on the average, about the 15th or 16th week of the year, and a low about the 42nd.



# SHOE PRODUCTION



# COTTON CONSUMPTION



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## NEW YORK CHAPTER SEPTEMBER MEETING

Leonard H. Lempert, Director, Statistical Indicator Associates, will speak on "Pitfalls in Handling Economic Data" at the September dinner-meeting of the New York Chapter of the Foundation for the Study of Cycles. You are cordially invited to attend.

The meeting will be held Thursday, September 14 at the White Turkey Sutton Place, 300 East 57th Street, New York City. The meeting will begin with a social hour at 5:45 P.M. Dinner will be served at 7:00 P.M. The cost is \$5.00 (cocktails and checkroom are extra): Please make your reservation with Mr. Paul H. Halladin, 24 Oakview Avenue, Maplewood, New Jersey.

# LETTERS:

In our stories on the market in general (using the averages) we try to give the background, to paint the broad picture so that people will have a better feel of the general climate. Even in our stories on individual issues we never recommend any stock to buy, hold, or sell. We are not talking about what to buy or sell, but rather about any cycles that may be present. If there are possible cycles present, our job is to inform our readers of this fact. G.S.

speaking his own mind!

Dear Sirs:

I note the suggestion that you go out and recruit a retired general or admiral for the sake of window dressing. To me this smacks of idiocy. Offhand, I cannot imagine a better method of securing a guaranteed misfit for such a job. . . How many Rickovers would be available for such a position?

Even if the suggestion is solely to create a position for the sake of show, it entails a multitude of dangers. Once get your general onto a place where he can yield any independent authority whatsoever, you have your bull in a china shop—you have the superlative combination of stubbornness, inflexibility, ignorance, lack of imagination, mental blackout, inefficiency, and infinite ego. Jacobowski commented to the Colonel that he had one of the finest minds of the 12th century; the 20th century should not settle for less than a 20th century mind. As you may gather, I'm against it.

Montpelier, Vermont

C.V.P.

## The Stock Market

Dear Mr. Dewey:

Sometimes I wonder whether astrology isn't as good or better than cycles for stock market use? Zolar claims 90% in short range forecasts and 100% on long range.

Philadelphia

M. Bowers

*Comment:* I do not see any of Zolar's forecasts, but nevertheless, I rather doubt the 90 and 100% figures. Things just don't happen that way! If any one person could forecast the market 100%, they would end up owning everything, would they not?

Gentlemen:

In your discussion of a one-year per cent curve you state, "the curve is figured simply by dividing the average for each month by the average for the same month of the previous year."

How do you figure the monthly average?

Brooklyn, N. Y.

N. Brahm

*Comment:* The monthly average of Dow-Jones Industrials is figured by averaging the daily close. That is, if you keep a daily record of the close, at the end of the month you add the figures and divide by the number of days included. This monthly average is published in the *Survey of Current Business*, which most large libraries get. G.S.

Dear Mr. Dewey:

I have followed with interest your publication "Cycles" for several years now. The new projects that you are about to embark on with the use of computers, should in a year substantially move forward the art of cycles.

I was somewhat amused the other day to have the enclosed clipping handed to me. I do not recall having seen any cycle study by you on mink coat sales in the past several years. Perhaps the ladies are more sensitive to the stock market than we have given them credit for. It is possible that there are many Hetty Greens masquerading under pastel blue.

Boston, Mass.

Weston Howland, Jr.

The clipping from the *Boston Globe* of July 19 quoted Michael Forrest, who manufactures and wholesales fur coats, as saying that the sale of minks is a good barometer of stock market trends. He believes that the fur business improves before the market goes up, indicating optimism and extra money. When mink sales fall off, he says, it means that money is scarce, and the market is going down. G.S.

# The Cycle Workshop

## GETTING HINTS OF CYCLES (CONTINUED)

The chart below illustrates the second method I use to get hints of cycles from a chart of the data. Hold the point of a pencil at one crest (or trough) and your thumb nail on the pencil at another. Keeping the thumb

nail on the pencil, move the point of the pencil to the place where your thumb nail was. See if the nail is now at another crest (or trough). And so on across the page. If the interval seems too long or too short, adjust

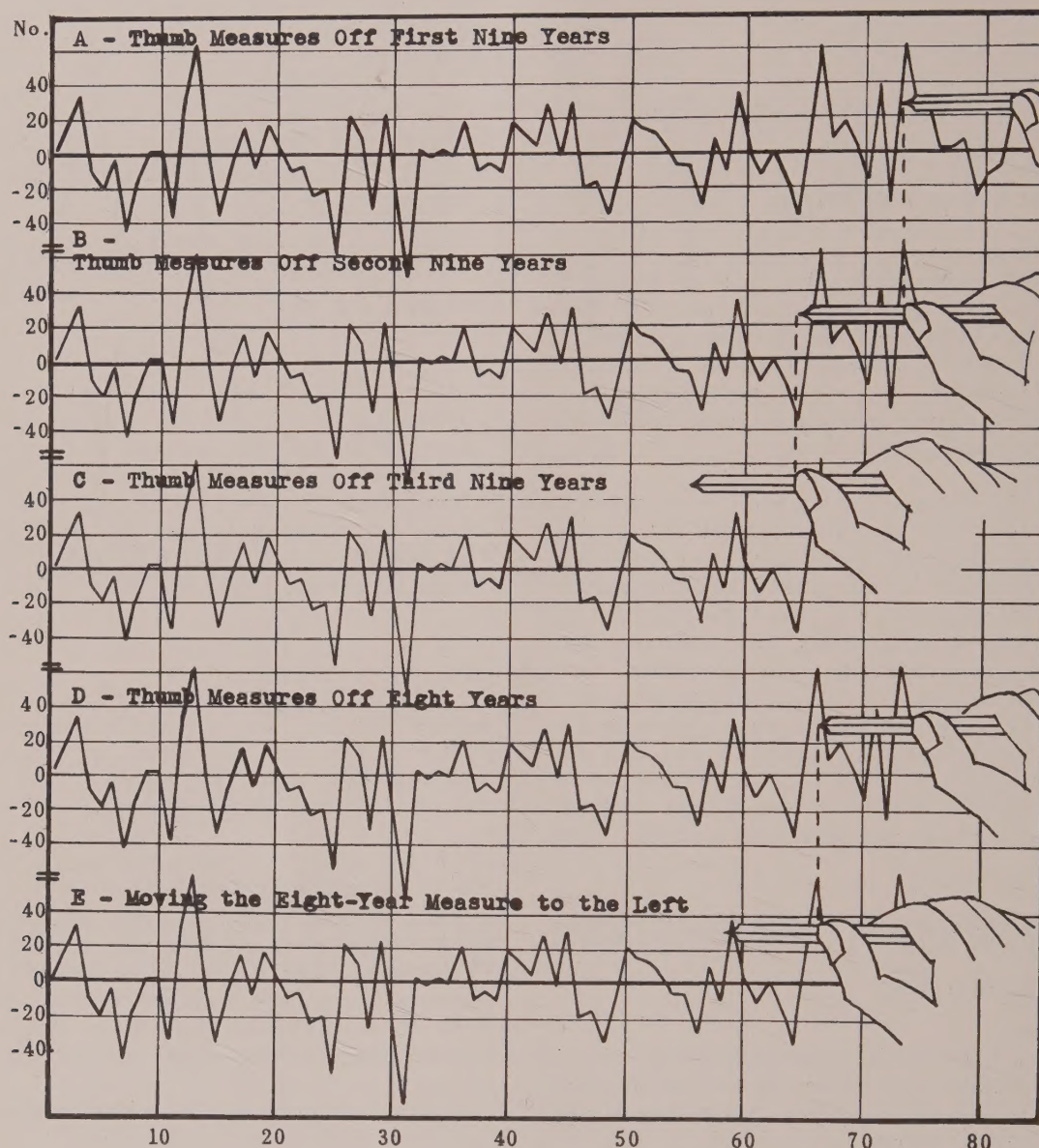


Fig. 1: An illustration of "Thumbing" as a means of getting hints of cycle lengths. The curve is made up of an 8-year cycle and randomness.

The first wave at the right is about 9 years long, so nine years is measured off on the pencil (A). We then move thumb and pencil to the left one wave (B). The result is not too good, but we go on (C). The pencil point

is even more out of step.

Now we reduce the span to 8 years and start over. The measurement of the first wave is not shown, but the second one is (D), and so on to the third (E). As we go across the page, years proves to be the right length.

From *How to Make a Cycle Analysis*, by Edward R. Dewey, copyright 1956, Lesson VI, page 27.

interval marked off on the pencil and  
start over.

You will often find it helpful to measure  
two waves on the pencil. You can then move  
pencil over two crests to see if you mark  
two waves. You can also measure off three  
waves, or four.

The only purposes of this technique are  
(1) to help your eye measure reasonable regu-  
lar horizontal distances, instead of getting  
fled, and (2) to provide a measure that can  
be changed easily and at will.

## Counting

A third method that I sometimes use is  
called "counting." Consider the chart below  
which shows the production of Florida oranges  
in millions of boxes from the crop year 1919—  
through the crop year 1956—57. The chart  
also shows, by means of a smooth line, an  
estimate of the underlying growth trend of  
these figures.

Thumbing did not seem to help much so I  
started counting the intervals between tops  
between bottoms. In counting you start out  
taking into account every change in direc-  
tion, relative to trend.

## How to Count

Starting with the peak in 1921 we count as  
follows: 3 to a peak in '24; 3 to a peak in  
'27; 2 to a peak in '29; 2 to a peak in '31;  
2 to a peak in '34; 5 to a peak in '39; 2 to a  
peak in '41; 3 to a peak in '44; 2 to a peak  
(relative to trend) in '46.

The year 1947 is much higher than the year  
1946, but it is not as much above trend as was  
1946. In judging turning points you must al-  
ways use the trend line as a base line for  
your eye. Similarly 1950 is really above 1948,  
but *relative to trend* it represents an im-  
portant bottom. Proceeding now with counting:  
2 to a high in 1948; 4 to a high in '52; 2 to  
a high in '54; at least 4 to the high next  
following to come in 1958 or later.

## Rearrangement

At first glance this gives us nothing but  
the following series of figures: 3, 3, 2, 2,  
3, 5, 2, 3, 2, 2, 4, 2, ?. You will notice  
that this series of figures consists mostly of  
2's and 3's. I first thought that these might  
average out to  $2\frac{1}{2}$  or  $2\frac{3}{4}$  years each, but  
this did not seem to work out. I then noticed  
that the 2's and 3's seemed to combine into  
5's. If you start with the crest in 1924 you  
get a good crest in 1928, five years later; a  
crest of sorts in 1934, five years later; a  
good crest in 1939, five years later; a good  
crest in 1944, five years later; a good crest  
in 1948, four years later (1 year short of the  
place where a crest "ought" to be); and a  
crest 6 years later in 1954, back on the track  
again if we really have a 5-year cycle in this  
series of figures. The same method of counting  
can be applied to the troughs as well as to  
the peaks.

Note that this method, like all these meth-  
ods of preliminary reconnaissance, give us  
merely *hints* of cycles. All we have so far is  
a hint of a cycle 5 years long to be investi-  
gated and, *after investigation*, to be accepted  
or rejected.

E. R. D.

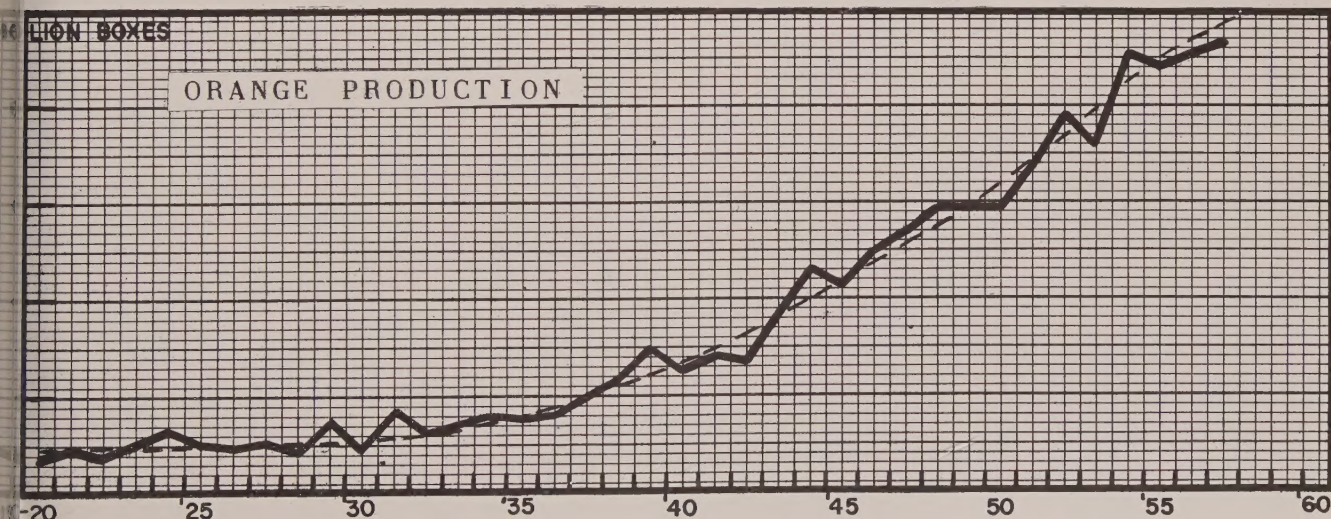


Fig. 2: Florida Orange Production as an Illustration of Counting to get Hints of Cycles

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